



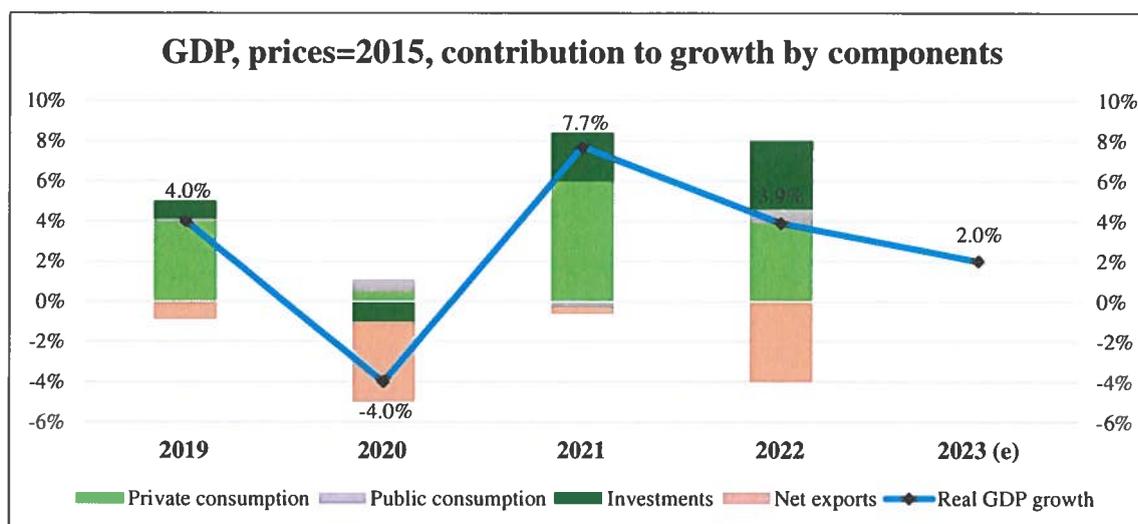
DSK Bank AD
Separate financial statements
for the year ended 31 December 2023,
management report on the activity,
declaration of corporate governance,
non-financial declaration
and independent auditors' report

Macroeconomic environment

Expanding global hostilities, continued inflationary pressures and high interest rates are just some of the factors shaping the year 2023, which has already passed. All this has led to weak economic growth in most of the world's leading economies, weighed down by both weak domestic and external demand. Economic uncertainty continued to prevail throughout the year, largely fuelled by ongoing and expanding military conflicts around the world. Rising defence spending supports the military industry but reducing the investment activity in other economic sectors. However, household consumption did not fall sharply and supported weaker production. In 2023, energy resource prices showed stabilization as the most important benchmark for this, Brent oil decreased its price ca. 18% compared to 2022. OPEK+ alliance's intention to influence the international price of oil in an upward direction has largely failed to materialize due to the increase in shale gas production from the US side, and this has restored the reverse balance between international supply and demand. The stable oil price partly helps to account for the downward trend in global consumer prices in 2023. The continued restrictive monetary policy of the central banks also affected the inflationary process positively by making financing more expensive and cooling the credit market.

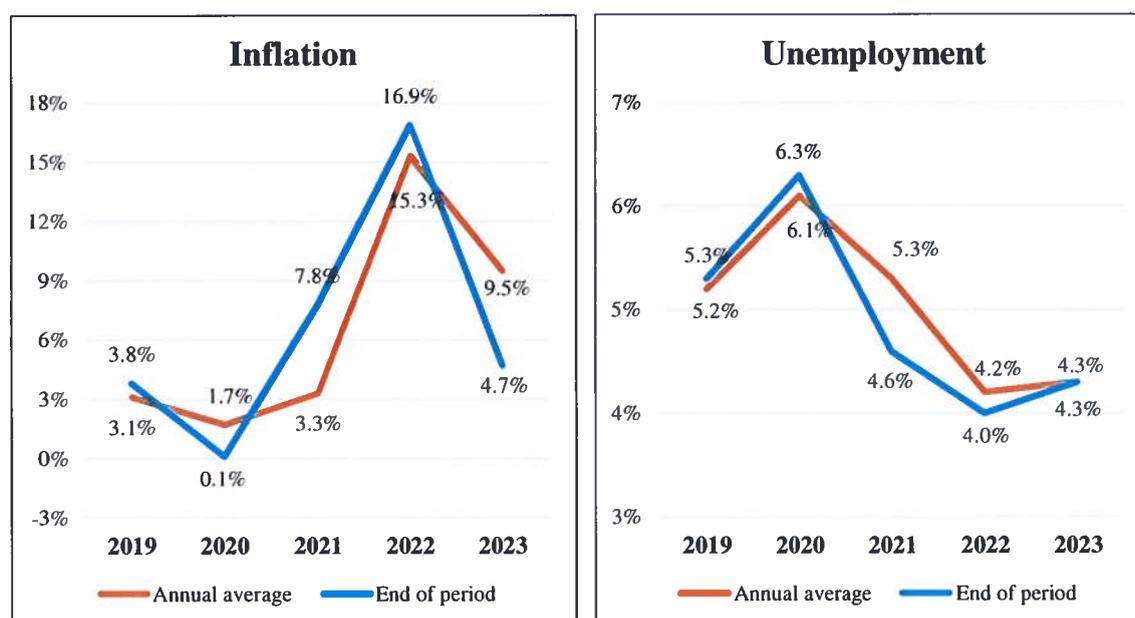
Bulgaria, as a small and trade-oriented economy, experienced in 2023 all the characteristics of the international environment. The prices of consumer goods continue to increase, but at significantly lower rates, the prices of energy resources stabilize, interest rates also increase in sync with the restrictive policies taken by the European Central Bank and the Bulgarian National Bank. Bulgaria is going through the 2023-2024 winter heating season relatively calmly mainly due to lower electricity and natural gas prices, despite the increased risk of escalation of military conflicts in the Middle East and the impact that it could have over the international prices of energy resources. The average annual price of electricity in Bulgaria for 2023 is BGN 204 per kWh and is decreasing on an annual basis by ca. 60%. Natural gas also reduced its average annual price by 53% from BGN 178 per MWh to BGN 84. The lower price of natural gas is the result of diversification of suppliers, as the main factor in determining the favourable prices is the supply of Azeri natural gas delivered through the "Bulgaria-Greece" interconnector (IGN). The Bulgarian energy sector shows several shocks in production capacities and together with the coal-fired power stations have affected and will continue to negatively affect competitiveness in 2024. Bulgaria's electricity generation from an absolute net exporter turned in a few short-term moments into a net importer of electricity from the region, which can only be changed by a targeted long-term carbon-neutral energy program.

Gross domestic product (flash estimates) reports annual growth of ca. 2.0% in 2023, decreasing compared to the last few years as economic activity cools not only in Bulgaria, but also in most of Bulgaria's main trade partners and member states of the Euro area such as Germany and Italy. Private consumption as the main driver of GDP growth remains a positive contributor in 2023, still mainly fuelled by inflationary pressure and double-digit wage increases in the public and private sectors. Investments in the country remain below their long-term potential, with mid-term expectations that they will approach their potential mainly due to Bulgaria's participation in the Recovery and Resilience Plan. Investments growth for 2023 is 2.6% compared to a year ago. The trade balance of Bulgaria reports a negative balance in 2023 as well, with exports and imports decreasing compared to 2022, mainly due to weakened external demand for Bulgarian export goods, lower electricity prices in the region, several significant accidents in energy production and controversial decisions surrounding the derogation of Russian oil.



The recovery of the economy from Covid-19 and the Russian invasion of Ukraine are the main drivers for the start of a comprehensive inflationary crisis not only in Bulgaria, but also in the world. Inflation in Bulgaria rose from 3.3% at the end of 2021 to 16.5% in March 2023 (CPI, previous 12 months=100). In the first few months of shaping the inflationary pressure, the prices of energy resources proved to have the highest weight, which affected all other consumer groups (especially foods and non-alcoholic beverages). Inflation has seriously declined in 2023, which is a result of stabilization of energy resource prices and cooled economic activity. The decrease in inflation continues in 2024 as well, as at the end of January it is 8.4% with an expectation that it will decrease at the end of the year to 4.1%.

The labour market continues to demonstrate low levels of unemployment not only in Bulgaria, but also in most European countries and the US. However, unemployment rate in Bulgaria is still far from the natural level of unemployment, along with this, the potential for development of the labour market is limited by the unfavourable demographic trends in the country. As the economy recovers, the labour market is expected to continue to perform well in the mid-term, characterized by low unemployment rate, high employment and increasing household disposable income.



The regular government formed after the 2023 elections represents the first relatively stable government after the two years of political chaos and five early parliamentary elections. The regular government gives clear signals about the main priorities laid down in the government program, such as the adoption of the euro in Bulgaria, Bulgaria's accession to the Schengen area and Bulgaria's active participation in the Recovery and Resilience Facility (RRF). The government debt at the end of 2023 is in the amount of BGN 40.5 bn or close to 22% of expected GDP. The budget balance of the Consolidated Fiscal Program (CFP) closed 2023 with a deficit of BGN 5.6 bn or 3% of expected GDP. Fiscal policy in the mid-term is expected to continue to be expansionary, characterized by increasing revenues and expenditures, which will continue to form government deficits within 2-3% of GDP, nominally increasing government debt.

| <i>Fiscal indicators</i> | <i>Unit</i> | 2019 | 2020 | 2021 | 2022 | 2023 (e) |
|---------------------------|---------------|------|------|------|------|----------|
| Government balance | <i>BGN bn</i> | -1.1 | -3.5 | -3.8 | -1.3 | -5.6 |
| Government deb | <i>BGN bn</i> | 22.0 | 27.5 | 31.2 | 36.1 | 40.5 |
| of which internal | <i>BGN bn</i> | 5.5 | 5.6 | 8.6 | 11.0 | 10.6 |
| of which external | <i>BGN bn</i> | 16.5 | 21.9 | 22.6 | 25.1 | 29.9 |

| % of GDP | | | | | | |
|---------------------------|---|------|------|------|------|------|
| Government balance | % | -1.0 | -2.9 | -2.7 | -0.8 | -3.0 |
| Government debt | % | 18.3 | 22.8 | 22.5 | 21.5 | 21.7 |
| of which internal | % | 4.6 | 4.7 | 6.2 | 6.5 | 5.7 |
| of which external | % | 13.7 | 18.1 | 16.3 | 15.0 | 16.0 |

In 2023, the Bulgarian banking sector reports a strong financial result, with the profit (after tax) amounting to BGN 3.4 bn and growing by 64% on an annual basis. All this is a result of higher interest rates, continued consolidation of the banking sector and low risk costs. The increased Euribor interest rate (all maturities) led to increasing interest rates in Bulgaria as well, with the transmission being the fastest in the corporate segment. Because of this, the interest income reports a 50% annual growth, and depending on the segments, the growth varies. In lending to households, the transmission is significantly delayed over time and the interest rate on housing lending in Bulgaria is one of the lowest rates in Europe. This, together with increasing household incomes, the newly granted housing loans in 2023 amount to BGN 7.8 bn at an average interest rate of ca. 2.6%. About consumer loans, the dynamics of interest rates are similar to those of housing loans due to a combination of factors such as high liquidity of the banking system, aggressive competition between banks for market position and overall digitalization of the lending process. The deposit base in the banking sector also reports another successful year in which households and companies took an active part. Customer deposits at the end of 2023 reached BGN 137 bn, increasing their volume by BGN 11 bn compared to a year ago. Non-performing credit exposures (more than 90 days past due) decrease during the year and by the end of 2023 is 2.1% of the total credit portfolio.

| Key indicators | Unit | Banking sector | | | DSK Bank | | |
|---|--------|----------------|---------|-------------|----------|-------|-------------|
| | | 2022 | 2023 | 23/22 (YoY) | 2022 | 2023 | 23/22 (YoY) |
| Total assets | BGN bn | 155 | 172 | 10.7% | 29 | 33 | 13.1% |
| Customer loans | BGN bn | 86 | 97 | 13.1% | 17 | 21 | 18.5% |
| Customer deposits | BGN bn | 126 | 137 | 8.4% | 24 | 26 | 10.2% |
| Profit (after-tax) | BGN bn | 2.1 | 3.4 | 64.4% | 0.6 | 1.0 | 77.5% |
| Return on equity (ROE) | % | 12.3 | 18.3 | 6.0pp | 15.5 | 24.7 | 9.2pp |
| Return on assets (ROA) | % | 1.4 | 2.1 | 0.7pp | 2.1 | 3.3 | 1.2pp |
| Non-performing loans (NPL) | % | 2.8 | 2.1 | -0.7pp | 1.5 | 1.2 | -0.3pp |
| Customer loans/Customer deposits (L/D) | % | 68.2 | 71.2 | 3.0pp | 72.7 | 78.3 | 5.6pp |
| Cost to Income ratio (C/I)** | % | 46.6 | 39.6 | -7.0pp | 36.9 | 31.0 | -5.9pp |
| Liquidity Coverage Ratio (LCR) | % | 235.0 | 246.7 | 11.7pp | 231.4 | 279.6 | 48.2pp |
| Total capital ratio (CAR) | % | 20.9 | 21.8*** | 0.9pp | 19.8 | 23.4 | 3.6pp |
| CET1 Capital ratio | % | 20.0 | 20.2*** | 0.2pp | 19.8 | 20.9 | 1.1pp |

* Quarterly financial and supervisory reports of the BNB

** The ratio does not include risk cost

*** The data is as of September 2023

Summary

In the banking sector, DSK Bank is positioned in second place in terms of total assets, which at the end of 2023 amount to BGN 32 774 m and increase annually by BGN 3 796 m. However, the Bank successfully defended its leadership position both in total customer loans and deposits, as well as in several sub-segments in lending and deposits. DSK Bank ranks first in the credit market, having a market share of 22.3%, increasing the position by 1.4 pp compared to 2022. In terms of total customer deposits, the Bank also occupies a leading position in the banking system with a market share of 19.3% compared to a year ago, when the share was 19.0%.

For 2023 DSK Bank reports a profit after tax to the amount of BGN 1 006.2 million.

As a result of the process for management of problem loans, which includes continuous improvements, the bank continues the positive trend in the dynamic of the portfolio quality and reports better than the planned quality at year end.

The Cost-to-Income as of December 2023 is 30.7%, which is the lowest ratio among all peers and significantly below the average level of the banking system in the country. This is a result of the continuing work efficiency improvement, good management of the investment policy and control over the current expenses.

During 2023 DSK Bank continues to offer traditional lending and deposit products for the households and retains its leading positions in this segment. The main priority of the Bank is to continue with the strategic program of digital and organizational transformation, which aims to provide even more advanced and high-quality digital products, with a focus on customer experience and efficiency.

The market and the credit risk are regularly monitored and evaluated from the corresponding responsible units. DSK Bank is compliant with the regulatory as well as the internal rules related to these risks. There are no indications for increasing of the risk above the levels, which the bank is able to absorb, in the segments or in different products, as well as in general concerning the entire balance sheet of the bank related to the asset quality, liquidity, currency position, trading limits and capital adequacy.

DSK Bank uses different types of financial instruments for the management of the liquidity and the market risks on its own account and supporting the customers.

For customers of the bank are offered financial instruments for management of currency and interest rate risk like currency forwards, currency and interest rate swaps and currency options. The positions as result of customer orders are managed according to the policy for management of the market risks and are mostly closed on the interbank market.

The Bank offers investment services on the account of customers complying with Markets in Financial Instruments Act and the respective legal acts on its implementation as Ordinance № 38 from 21.05.2020 on the requirements to the activities of the investment intermediaries and Ordinance № 58 from 28.02.2018 of the Financial supervision commission (FSC) on the requirements for protection of the financial instruments and the monetary funds of clients, for management of products and offering or receiving of remunerations, commissions, other pecuniary or non-pecuniary benefits, as well as the approved internal rules related to those regulatory acts.

The Bank keeps the entire documentation related to the concluded customer contracts and the execution of customer orders, including documents, which ensure the identification of the clients according to the requirements of the Law on measures against money laundering. The Bank also maintains reporting and accounts for separate customer accounts for the entrusted client assets so that the letter can be distinguished from the financial instruments owned by the bank and can be individualized.

The performance of the administrative functions is strictly monitored (particularly those related to the interaction with external parties). Procurement is ensured for the entire branch network, whereas most of the supplier contracts are centralized and the orders, supplies and the respective expenses are closely monitored by the Head Office. Reports and other obligations toward external authorities and regulatory bodies are prepared and delivered timely and the compliance with all legislative requirements is monitored by Strategy, finance and data management division, Legal directorate and Compliance directorate. The operational risk is monitored and regular reports are prepared and submitted to the Operational risk management committee measuring the events and the realized losses and the corresponding potential losses, as well as proposing measures for limiting of the operational risk.

In 2023, DSK Bank did not have any research and development activities.

General information about the Management and the Structure of the Bank

DSK Bank AD is a fully licensed bank authorized to perform all banking operations according to the Bulgarian legislation. It is a universal commercial bank with prevailing activity in retail banking. DSK Bank has not acquired and does not hold its own shares from the Bank's capital.

DSK Bank AD has a two-tier management system. The Governing bodies are: Supervisory Board (SB) and Management Board (MB).

As of December 31, 2023 DSK Bank AD was managed by a Supervisory Board and a Management Board respectively with the following members:

Supervisory Board

László Bencsik - Chairman of SB
 Violina Marinova - member of the SB
 László Wolf - member of the SB
 Gábor Kuncze - member of the SB
 Attila Turkovits - member of the SB
 Anthony Radev – member of the SB
 Zsuzsanna Bereczki - member of the SB

Management Board

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Mihail Komitsky – member of the MB
 Dimitar Dilov – member of the MB and Executive Director

In the Management Board, the personal changes in 2023 were as follows:

By decision of the Supervisory Board of DSK Bank, Mrs. Diana Miteva was released as member of the Management Board of DSK Bank prior to the expiry of her mandate, effective 01.01.2023. The change is entered in the Commercial Register on 13.01.2023..

Changes as follows on 13.01.2023:

The date of the term of Tamas Hák-Kovács is 3 (three) years as from the date of his entry in the commercial register and the register of NGOs as a member of the Management Board. For BOYAN FILIPOV STEFOV the term expires on 28.10.2023. For Dorothea Nikolaeva Nikolova-Ilcheva the term is 3 (three) years as from the date of her entry in the commercial register and the register of NGOs as a member of the Management Board for Slaveyko Lyubomirov Slaveykov, Arnaud Rene Julien Leclair and Mihail Roumenov Komitsky the term expires on 25.03.2025.

Management Board Members:

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Diana Miteva - member of the MB and Executive Director - deleted circumstance
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Arnaud Leclair - member of the MB and Executive Director
 Mihail Komitsky – member of the MB

By decision of the Supervisory Board of DSK Bank, Mr. Arnaud René Julien Leclair was released as Member of the Management Board of DSK Bank AD prior to the expiry of his mandate, effective end of 30.04.2023. Mr Leclair's deregistration as an Executive Director of DSK Bank was entered in the Commercial Register on 10 May 2023..

Changes as follows on 10.05.2023:

The date of the term of Tamas Hák-Kovács is 3 (three) years as from the date of his entry in the commercial register and the register of NGOs as a member of the Management Board. For BOYAN FILIPOV STEFOV the term expires on 28.10.2023. For Dorothea Nikolaeva Nikolova-Ilcheva the term is 3 (three) years as from the date of her entry in the commercial register and the register of NGOs as a member of the Management Board for Slaveyko Lyubomirov Slaveykov and Mihail Roumenov Komitsky the term expires on 25.03.2025.

Management Board Members:

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Arnaud Leclair - member of the MB and Executive Director - deleted circumstance
 Mihail Komitsky – member of the MB

By decision of the Supervisory Board of DSK Bank the mandate of Ms. Dorothea Nikolova-Ilcheva as member of the Management Board of DSK bank was prolonged for a period of 3 years till 18.05.2026. The decision was entered in the Commercial Register on 08.06.2023.

Changes as follows on 08.06.2023:

The date of the term of Tamas Hák-Kovács is 3 (three) years as from the date of his entry in the commercial register and the register of NGOs as a member of the Management Board. For BOYAN FILIPOV STEFOV the term expires on 28.10.2023. For Dorothea Nikolaeva Nikolova-Ilcheva the term expires on 18.05.2026 for Slaveyko Lyubomirov Slaveykov and Mihail Roumenov Komitsky the term expires on 25.03.2025.

Management Board Members:

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Mihail Komitsky – member of the MB

By decision of the Supervisory Board of DSK Bank the mandates of Mr. Tamás Hák-Kovács, Mr. Boyan Filipov Stefov, Mr. Slaveyko Lyubomirov Slaveykov and Mr. Mihail Roumenov Komitsky were prolonged until 18.05.2026. The decision was entered in the Commercial Register on 13.09.2023.

Changes as follows on 13.09.2023:

The date of the term expires on 18.05.2026.

Management Board Members:

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Mihail Komitsky – member of the MB

By decision of the Supervisory Board of DSK Bank Mr. Dimitar Dilov was elected as a member of the Management Board of DSK Bank AD with a mandate until 18 May 2026. By decision of the Management Board of DSK Bank Mr. Dimitar Dilov was elected as Executive Director of DSK Bank. The decision was entered in the Commercial Register of NPLE on 04.10.2023.

Changes as follows on 04.10.2023:

The date of the term expires on 18.05.2026.

Management Board Members:

Tamas Hak-Kovacs - Chairperson of the Management Board and Chief Executive Officer
 Slaveyko Slaveykov – member of the MB and Executive Director
 Dorothea Nikolova-Ilcheva - member of the MB and Executive Director
 Boyan Stefov – member of the MB and Executive Director
 Mihail Komitsky – member of the MB
 Dimitar Dilov – member of the MB and Executive Director

In 2023, DSK Bank has no contracts under Art. 240b of the Commerce Act

In the Supervisory Board the personal changes in 2023 were as follows:.

With decision dated 31.03.2023 the General Shareholders' meeting of DSK Bank released Mr. Krisztián Selmeczy as a member of the Supervisory Board and elected Mrs. Zsuzsanna Bereczki as a member of the Supervisory Board. The changes were registered in the Commercial Register and Register of Non-profit Legal entities on 13.04.2023.

Changes as follows on 13.04.2023:

The date of the term of Zsuzsanna Bereczki is until 31.03.2026. For Violina Marinova Spasova, Anthony Radev and Attila Turkovics is 3 (three) years as from the date of their entry in the commercial register and the register of NGOs as members of the Supervisory Board, and for the other three members – 3 (three) years as from 29.10.2021.

Supervisory Board Members:

László Wolf,
 Laszlo Bencsik,
 Gabor Kuncze,
 Violina Marinova Spasova,
 Anthony Radev,

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Attila Turkovics,
Zsuzsanna Bereczki,
Krisztián Selmeczy - deleted circumstance

With decision dated 17.11.2023 the General Shareholders' meeting of DSK Bank prolonged the mandates of the Supervisory Board of DSK Bank till 31.03.2026. The decision was entered in the Commercial Register on 29.11.2023.

Changes as follows on 29.11.2023:

The date of the term expires on 31.03.2026.

László Wolf,
Laszlo Bencsik,
Gabor Kuncze,
Violina Marinova Spasova,
Anthony Radev,
Attila Turkovics,
Zsuzsanna Bereczki

In 2023, DSK Bank has no contracts under Art. 240b of the Commerce Act

The total remuneration (accrued and received) by the management of DSK Bank during the year was in accordance with management contracts and respectively amounted to BGN 6.3 million and BGN 7.2 million.

Participation of Management and Supervisory Board members of DSK Bank in the share capital as of 31.12.2023

The Members of the Management and Supervisory Board do not participate in the share capital and do not have any rights to acquire shares and bonds of the company.

The participation of the Management Board members of DSK Bank in management and supervisory bodies of other companies by the end of 2022, as representatives of DSK Bank is as follows:

| Name | Company | Position |
|--------------------|--|--|
| Tamas Hak-Kovacs | DSK Leasing AD BORIKA AD dsk Ventures EAD PIC DSK-Rodina AD | Member and the Chairperson of SB Member of BD Member and the Chairperson of BD Member and the Chairperson of SB |
| Slaveyko Slaveykov | DSK Dom EAD | Member and the Chairperson of BD |
| Dimitar Dilov | DSK Leasing AD | Member of SB |
| Mihail Komitsky | DSK Leasing AD OTP Leasing EOOD | Member and Chairperson of MB Executive officer |
| Boyan Stefov | DSK Asset Management AD | Member of SB |

The address of the Head Office of DSK Bank AD is 19 Moskovska str., 1036 Sofia.

As at the end of 31 December 2023 DSK Bank AD has 8 regional centers, 48 financial centers, 22 business centers and zones, 93 branches, 128 bank offices.

Financial result and profitability

For 2023 DSK Bank reported BGN 1 109.1 million profit before tax, which increased significantly by 79% compared to 2022, mainly as a result higher interest income. Lower impairment allowances also contributed for the good performance.

The profit after tax for 2023 was BGN 1 006.2 million.

The net interest income amounted to BGN 1 365.7 million and grew by BGN 626.5 million or 85 % compared to 2022, mainly as a result of higher interest income by BGN 720.2 million compared to 2022 as the interest income on loans increased by BGN 349

million and the interest income on loans and advances to banks increased by BGN 374.1 million. The interest expenses increased year-on-year by BGN 93.7 million mainly as a result of higher interest expenses on loans from banks and financial institutions.

The net non-interest income for 2023 amounted to BGN 214.9 million (a decrease of 48% or BGN 199.3 million compared to 2022), which is mainly a result of the lower net trading income. Net fee and commission income amounted to BGN 321.5 million and increased by BGN 18.1 million compared to 2022.

The operating expenses (incl. personnel expenses, amortization, hired services, material expenses and other) stood at BGN 486 million, and increased by BGN 65.9 million or 16% compared to 2022.

The average headcount of the Bank as of 31 December 2023 was 5 198 (31 December 202: 5 193).

The assets per employee ratio increased from BGN 5.58 million as of the end of 2022 to BGN 6.31 million as of the end of 2023. The profit per employee ratio also increased from BGN 109.1 thousand for 2022 to BGN 193.6 thousand for 2023.

Balance sheet indicators

The total assets of DSK Bank AD as at 31 December 2023 amounted to BGN 32 773.7 million and grew by BGN 3 805.9 million (or 13%) compared to 2022, which was as a result of the company loan portfolio growth (by 21.3%) and the increase of the Individual loan portfolio (by 16.4%), too.

The market share of the Bank as of December 2023 in the total banking assets in the country was 19.0% (18.6% as of December 2022).

Interest bearing assets comprised 97.6% relative share of the Bank's total assets.

The gross loan portfolio of DSK Bank as of 31 December 2023 was BGN 20 668.7 million and increased by BGN 3 233.2 million or 18.5% year-on-year.

Loans to individuals (gross value) amounted to BGN 11 387.3 million and grew by BGN 1 602.8 million (16.4%) compared to the end of previous year.

The market share of the Bank in terms of household loans as of December 2023 was 29.1%, remaining stable the market position compared to a year ago, as in consumer loans (incl. credit cards, overdrafts, and non-residential mortgage loans) was 36.2% (37.4% in 2022), and in housing loans – 24.5% (23.2% in 2022). The market share of non-financial enterprises as of December 2023 was 14.2% compared to 13.5% in 2022.

Company gross loans (incl. budget) amounted to BGN 9 281.4 million and increased by BGN 1 630.4 million compared to 2022.

Impairment allowance of the loan portfolio amounted to BGN 653.6 million and decreased by BGN 79 million year-on-year.

Customer deposits amounted to BGN 26 407.1 million and grew by 10.2% or BGN 2 437.2 million compared to 2022.

Household deposits as at the end of 2023 were BGN 20 307.9 million and reported an increase of BGN 2 321.2 million or 12.9%.

The market share of the Bank in terms of household deposits as at the end of 2023 was 24.6% and increased compared to 2022 (24.2%).

Company deposits (incl. budget) amounted to BGN 5 586.5 million as at the end of 2023 and increased by BGN 494.8 million compared to the previous year.

Deposits from financial institutions amounted to BGN 512.7 million and decreased by BGN 378.8 million compared to 2022.

Net loan to deposit ratio as of 31 December 2023 was 75.8% (as at the end of 2022: 69.7%).

Card transactions

The number of the cards issued by DSK Bank as of 31.12.2023 were 2 256.6 thousand. In Retail banking the number of total cards issued were 2 177.4 thousand out of which debit cards amounted to 1 997.7 thousand and credit cards were 179.7 thousand. The card numbers of corporate customers were 79.2 thousand.

As of December 2023 the Bank operated with 979 ATM and 17 494 POS devices. In 2023 the POS devices increased by 1 236 numbers compared to 2022.

Capital adequacy

The Bank constantly maintains a level of total capital adequacy, sufficient to cover the risks from its activity and to comply with the regulatory requirements. As at 31 December 2023 the total capital adequacy ratio on an individual basis was 23.36%. DSK Bank AD provided BGN 613 million free capital above the total SREP capital requirement and the combined capital buffer, incl. capital conservation buffer (BGN 461.2 million), systemic risk buffer (BGN 553.4 million), O-SII buffer (BGN 184.5 million) and the specific for the institution countercyclical buffer (BGN 341.3 million).

Credit risk

In the context of the war in Ukraine crisis the identification and measurement of credit risk had to address the specific situation of clients and their capabilities to replace respective clients or suppliers from the area of the military conflict. DSK Bank monitors monthly whether a significant increase of credit risk has occurred. The assessment is performed either in the process of individual case-by-case monitoring and review of a given loan, or in the presence of indicators of increased credit risk, such as days past due, default on other loans in the retail individuals segment (as long as it does not trigger a cross-default), watchlist status, forbearance (as long as it does not trigger NPL classification it serves as a Stage 2 trigger).

The main credit risk to which DSK Bank AD is exposed results from the granted loans to clients. As of the end of the year, the gross loan portfolio of the Bank comprised loans to households (55.1%) and company loans (incl. budget) (44.9%). Within household loans the credit risk is well allocated between consumer loans (47.2%) and mortgage loans (52.8%).

DSK Bank AD measures credit risk in compliance with IFRS requirements (officially adopted by the Bulgarian legislation) and according to the adopted impairment policy of DSK Bank AD in accordance with International Financial Reporting Standards.

The coverage ratio (ratio of coverage of the total loan portfolio from expected credit loss impairment) as of December 2023 was as follows:

Total loan portfolio – 3.2%

According to the classification of the portfolio quality by stages in compliance with IFRS 9 the coverage with impairment of each group is as follows:

- Stage 1 – 0.8%
- Stage 2 – 9.6%
- Stage 3 – 60.2%

The risk coming from the activity of the Bank mainly in retail banking is well diversified by product types, collateral types and risk exposures. The relation between the separate exposures is monitored and according to their quality, corrective measures are taken in order to limit the increase of concentration risk. The introduced sector limits for company loans aim an additional improvement of risk portfolio diversification. The Centralized Commission for Problem Loans monitors on a monthly basis the limits compliance and imposes limitations and recommends measures in case of limit violations or indications for such.

As of the end of 2023 the credit performing exposures including those with increased credit risk (classified in stage 1 or stage 2) were 97.7%, as the distribution within the products was as follows:

Consumer loans to individuals – 95.5%, point of sale loans to individuals – 97.1%, mortgage loans to individuals – 98.2%, loans to small business – 95.4%, loans to corporate clients (mid-corporate clients and large corporate clients) – 98.9%.

During the entire year continued the work on taking intensified measures for improvement of the process of monitoring and management of the portfolio quality, including improvement in the procedures for monitoring and analysis of problem loans, improvement of the work of the inspectors for problem loans in the branch network, early identification of problem exposures and undertaking intensive actions on determination of the reasons and finding solutions in line with the changed circumstances considering at the same time the interest of the Bank, as well as of the borrowers.

Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for the DSK Bank's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.

The goal of liquidity risk management is to ensure that institution will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO). The liquidity management is based on key information regarding the bank activities, presented regularly to ALCO.

In addition to monitoring the liquidity position, the Bank also analyzes the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behavior is reported to the management.

To analyze the liquidity, maturity tables for assets and liabilities are prepared, in which the cash flow from different assets and liabilities are distributed in different time bands, according to their payment date.

In order to monitor and manage its liquidity risk, the Bank uses various regulatory, group, internal and market indicators.

As part of the management of liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements.

Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

Interest rate risk

The interest rate risk is the risk of bearing a loss due to fluctuations in market (reference) interest rates. DSK Bank manages separately the interest rate risk in the banking book and in its trading book.

The Bank's activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. Interest rate risk management activities are conducted in the context of the bank's sensitivity to interest rate changes.

DSK Bank analyzes the interest rate risk in the banking book by classifying its financial assets and liabilities into time zones according to their sensitivity to changes in interest rates and into different currencies groups. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

The Bank measures its exposure to interest rate risk in the banking book by calculating two main indicators – the change in net interest income (income- based indicator) and the change in the economic value of capital (value- based indicator), based on the interest rate scenarios described in the EBA guidelines. They represent the sensitivity of the DSK Bank's income and capital to changes in market interest rates.

DSK Bank manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity- BVP limits.

Exchange rate risk

The Bank is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the Bank's financial results are affected by fluctuations in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.

The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Bank senior management sets limits on maximum open positions – total and per currency, daily and overnight open positions, stop-loss limit and expected loss, as well as VaR (Value at Risk) limit to manage the Bank's exchange rate risk of the trading portfolio. Bank's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions in the trading portfolio and the compliance with the approved limits by currency, as well as the strategic position

of Assets and Liabilities Management in EUR are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Bank.

The Bank applies VaR methodology through a MRP (Market Risk Portal) system for market risk observation to measure the exchange rate risk. Basic characteristics of this model are: historical with 99% level of confidence and 1-day retention. To bring out a correlation matrix historical observations are used for exchange rate changes for 250 working days.

VaR model has some limitations such as the possibility of losses with greater frequency and with larger amount, than the expected ones. For this purpose the quality of the VAR model is continuously monitored through back-testing the VAR results. To assess the currency risk in extreme conditions, stress test is used, based on potential changes of the currency rates, provided by the Market Risk Department of OTP Bank.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, DSK Bank manages net exposure by buying and selling foreign currencies at spot rates when considered appropriate, within the approved limits for open currency position. The Bank is not exposed to a significant exchange rate risk in relation to transactions for which it applies hedge accounting according to IFRS 9.

Operational risk

Operational risk means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at the Bank is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank's Head Office. Chairman of the ORMC is the Head of the Risk Management Division. The meetings are held quarterly, discussing the level of operational risk and operational decisions are taken that are not assigned to the competence of the Management Board or other bodies and measures for mitigation/elimination of operational risks, are planned. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence. The reports about the level of operational risk reviewed at the ORMC are then forwarded to the MB of the Bank with a proposal for decisions to be taken based on these reports that are within its powers.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Section as part of the General Policy and Risk Management Directorate, which is part of the Risk Management Division, independent from the business units.

DSK Group has implemented a unified system for identification and management of operational risk, built on the model of OTP Bank Group. It is based on the collection of data on operational events that have occurred in the Group, analysis of the potential effect of such occurrences, and periodic information to management on the level of operational risk. The process was developed on the basis of the declaration of information by the heads of independent structural units in the Bank, responsible for operational risk management in their units, according to the adopted decentralized approach to operational risk management in OTP Bank Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-assessment of the Bank's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually. The methodology for identification of potential risks is based on a decentralized assessment performed by experts in the various sections/ units of the Bank, who are supported by the expertise of the Operational Risk Management Section.

As part of this process, the so-called scenario analyses are prepared, aimed to evaluate the potential effects on the financial position of the Bank and the Bank's processes, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

Additionally, the actual level of operational risk is monitored based on a Key Risk Indicator system which covers the main risk factors caused the significant operational risk losses and interruption in the critical business processes.

The Bank has a Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Bank needs. The Plan's efficiency is tested annually in order to determine the readiness of the Bank to respond in times of crisis and to ensure continuity of the Bank's operations. The test results are reported to the MB of the Bank.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the requirements of EU and Bulgarian legislation, the standards of the OTP Group and best banking practice in operational risk management.

In accordance with European standards for the outsourcing of activities, the Group has developed policies and procedures for managing the risks arising from outsourced activities and services provided by third parties, part of which are the activities of due diligence of suppliers and assessment of the risk of assignment of the activity - methodology for initial and subsequent periodic assessment of the risk of outsourcing activities.

Similarly and in accordance with the internal normative rules, the models used in the Bank are subject to annual risk assessment.

Reputational risk, which is a result of operational events in the field of IT technologies, is calculated using a methodology developed according to the standard of the OTP Group.

Prior to the implementation of a new process, new system or new activity, the latter shall be analyzed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Section for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated basis has been in force since 31 March 2014. On its ground, the required regulatory capital for operational risk is calculated centrally by OTP Banking Group, and its adequacy is verified annually in the process of the Internal Capital Adequacy Analysis. In addition, an internal methodology for performing stress tests has been developed and applied, which assesses the adequacy of the allocated capital for operational risk of the Bank.

Annually, the Bank performs a product review, focusing on the potential conduct risk and on the most important controls integrated into the sales processes to mitigate this risk.

An insurance policy has been developed and is in force, according to which the Bank maintains valid insurance policies covering major risks such as theft and damage to tangible assets, valuables and others. Insurance policies are subject to regular review and update.

Annual internal training on the topic for operational risk is conducted for all employees, aimed at raising awareness of identifying and limiting operational risks. Training is also mandatory for all new employees.

The units responsible for the management of the different types of risk carry out constant ex-post control on a sample basis and at different intervals in order to ensure compliance with the rules and procedures to ensure consistency, security and validity of the transactions. This type of control is mainly aimed at detecting operational human and technical errors, uncommitted actions by responsible officials or intentional inaccuracies.

The operational risk management system is subject to the annual Supervisory Review and Evaluation Process (SREP), regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank.

In 2023 in DSK Banking Group, there are no registered operational events that could potentially jeopardize the Bank's activities. For all so-called extraordinary operational events that have a significant potential financial or reputational impact, action plans have been developed and all necessary and sufficient measures have been taken to limit their impact as well as to reduce and eliminate the likelihood of their occurrence in the future.

Risk Management (hedging)

DSK Bank uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading.

The Bank aims to manage risk and the objective of hedge accounting is to represent, in the financial statements, the effect of an Bank's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss

Detailed information is presented in the annual financial statement,

Investment program

The investments of DSK Bank during the year amounted to BGN 60.6 million. The investments in information technology were BGN 44.4 million, as their share in the total investments of the Bank was 73% (for 2022 this share was 56%).

Audit remuneration

The joint and independent financial audit of the annual financial statements of DSK Bank for 2023 has been conducted by the registered auditors Ernst & Young Audit OOD and BDO AFA OOD.

The accrued amounts (BGN 1.8 million) for the services provided by the independent auditors are the following:

- independent financial audit - BGN 1.51 million;
- interim financial information review – 0.27 million;
- other services, non-related to audit – BGN 0.04 million.

Events after the reporting period

On 19 January 2024 the Bank sold 41% of the share capital of its subsidiary DSK Asset Management AD at the price close to the balance sheet value. As a result the effective share of the Bank in the capital of the company is 25%.

No other significant events after the end of the reporting period have been identified.

Major goals for 2024:

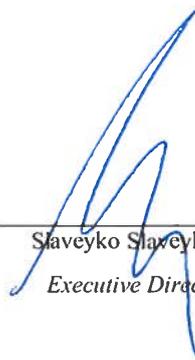
The management of the Bank has defined the following priorities for the business year 2024:

- Dominate our markets through customer obsession and innovation;
- Focus on young professionals and big cities;
- Digital prowess to match our scale and ability in the branch channel.

The Report on the Management and the Activity of DSK Bank AD for 2023 is approved by the Management Board with a protocol №12/15.03.2024.



Tamas Hak-Kovacs
Chief Executive Officer



Slaveyko Slaveykov
Executive Director

CORPORATE MANAGEMENT DECLARATION
According to Art.39 of the Accountancy Act and Art. 100n POSA

1. Information as per Art.100n, para.8, item 1, letter “a”

DSK Bank AD follows duly the National code of corporate management published on the website of the Bulgarian Stock Exchange in compliance with Art.100n of the POSA;

2. Information as per Art.100n, para.8, item 3

Description of the main characteristics of the internal control and risk management systems of the issuer in regard to the financial reporting process:

The internal control system of DSK Bank is based on the efficient internal management and internal control framework that includes clear organizational structure and well-functioning independent units for risk management, regulatory compliance and internal audit, having the necessary powers, status and resources to fulfil their functions. The risk management units and the regulatory compliance unit are subject to review by the internal audit unit.

The managers of the internal control functions can act autonomously and independently, as well as to express their considerations and to warn the managing authority of supervisory function, if necessary, when an unfavourable development of any risk has or may have influence on the Bank.

The established internal control framework of DSK Bank AD ensures:

- a. the performance of efficient and effective operations;
- b. reasonable fulfilment of activity;
- c. appropriate detection, measurement and mitigation of the risks the Bank is exposed to;
- d. reliability of the financial and non-financial information and reporting;
- e. compliance with laws and bylaws, supervision requirements and the internal policies, procedures, rules and decision implemented by the institution.

The process of Bank operating activity includes also the fulfilment of internal financial control – preliminary, current and subsequent. Systems of internal control on the financial reporting are adopted within the Bank activity.

The preliminary control is performed for all types of accounting operations and precedes the fulfilment of the accounting operations, aiming to ensure their lawful realization.

The current control for operations with high level of operating risk is carried out during the process of bank operations realization and aims the current elimination of deviations from the implemented rules and order for performing and documenting the accounting operations, ensuring their lawful fulfilment, timely elimination of mistakes made, etc.

The subsequent control covers all actions and measures, aiming to find out the illegal actions and operations, omissions and errors, misuses, waste and other irregularities that are present despite the measures undertaken during the preliminary and current control.

The internal control environment established in the Bank ensures the reliability of the reporting information. The control functions on the financial reporting cover: organizational and operating independence of the unit responsible for the financial reporting of the business departments; coherence between the organizational structure and the control and management processes for the related risks in way of clear definition of responsibilities; integrated information systems enabling the option for preparation of detailed reports and enquiries; developed framework of procedures and rules related to the financial reporting and information security; definition and adherence to the levels of approval and system of internal control processes.

Part of the structure of DSK Bank AD is the **Risk Management Division**, which main tasks are related to: maintaining an adequate policy for risk taking and risk assessment methodology, in compliance with the risk appetite and the adopted strategy on risk management; organization and provision of adequate system for measuring, reporting and efficient risk management; planning and management of the fulfilment of projects in the field of risk management; provisioning of regulatory and internal reporting related to the management of credit, market and operational risk; assessment and monitoring of environmental, social and governance related risks (ESG risks).

The risk control and management in the Bank is determined depending on the risk appetite and Bank's capabilities to perform monitoring on the risks undertaken by it. For these purposes, DSK Bank AD has clearly defined competency levels according to the type and total amount of the risk to be undertaken in regard to client/ partner and client's group. The units involved with control and approval functions in the credit process, are independent from the business departments.

The Bank uses internal rating system for assessing the creditworthiness of its clients.

Except by means of client's and partner's limits, DSK Bank limits the concentration of its exposures also through sectoral limits for the companies. The sectoral limits are determined according to the methodology approved with the Rules on risk undertaking, and approved by the Credits and Limits Council, and their following is controlled by the Risk Management Department. Review or update of limits could be proposed in case of change of the business plan for the risk exposures to the companies, being clients of the Bank, in case of changes in the macroeconomic framework; risks, which cause or could cause a significant influence on the development of the companies from that sector, respectively, on the financial indicators of the sectors or in case of business expanding beyond the approved annual plan.

For ensuring proper management of the ESG risks, the Bank had implemented ESG Risk Management Framework in Loan Origination and Monitoring, based on which classifies each credit transaction of a business client depending on the client's activity and the maturity of the transaction.

Used in the market risk field are the positioning limits, stop-loss limits, VaR limits, etc., which support the appropriate management of these risks. Compliance with the partner's limits is ensured through their integration in the system for treasury transaction, and thus that play the role of a preventive control. Market Risk Management Unit performs the subsequent control for the market limits (VaR, Stop loss, BPV). There are established specialized analytic environments within the Bank Group, which allow for the timely monitoring and management of the risks. There is an escalation system in case of limit violation, and specific terms are defined for undertaking corrective measures in case of violation. The limits themselves are subject to regular review and update depending on the changes in the business plans and the business environment.

The Bank has implemented a reliable system for identification, registration and subsequent update of all events occurring and causing financial damages, as well as for events that could have influence on the image and reputation of the Bank. The information gathered is regularly analysed and presented to the competent bank management authorities, in order to take adequate measures to limit and prevent the occurrence of such events. Response emergency plans are developed for cases of extraordinary circumstances, so as to ensure the Bank working capacity and limit the financial and reputation effects of these events' occurrence.

The organization of risk control function in DSK Bank is complemented by the established separate position of **Risk Controller within Risk Management Division**. The Risk Controller undertakes independent verifications and monitoring of the risk management mechanisms, identifies different risk types, estimates their impact and reports potential or existing weaknesses and deficiencies in the process of risk management in line with the risk appetite. In addition, the Risk Controller coordinates the process of permanent follow-up control and provides methodological support to the units which perform such control (Risk, Compliance, Finance) to ascertain compliance with the rules and procedures for ensuring consistency, security, and validity of transactions. The controls are systemized in Permanent Control Library of the Bank and the results (completion rate, high risk anomalies, corrective measures) are reported quarterly to the Operational Risk Management Committee.

Compliance Regulatory Directorate ensures proper risk identification, measurement and management in relation to the regulatory compliance, which DSK bank may suffer as result of incompliance with the applicable laws, supervisory requirements, codes of conduct and standards in the fields of compliance applicable for the banking activity. The **Directorate** exercises the control on the adherence to the existing legal framework, the supervisory requirements and the internal acts of DSK Bank and OTP Group, including the Ethical Code, Rules on conflict of interests, personal data protection, application of sanction programs, etc. The unit performs a compliance assessment for the product proposals in regard to the existing legal framework, and, if appropriate, in regard to all known pending changes in the legislation and the supervisory requirements. Compliance Directorate provides methodical support and exercise control on the activity of DSK Bank in its capacity of an investment mediator, and proposes measures for eliminating the inconsistencies in this field.

The Anti-Money Laundering and Countering the Financing of Terrorism Department (AMLCFT) is a second level of control and defence that ensures the identification, measurement and management of the money laundering and terrorist financing risk that DSK Bank may incur as a result of non-compliance with applicable laws, regulations, supervisory requirements and guidelines, codes of conduct, international standards and guidelines, as well as applicable group policies and regulations in the field.

The AMLCFT **Department** has been designated as the specialized service unit within the meaning of Art. 106 of the AML Act and is managed by the Head of the "AMLCFT" Department, to whom the management body in its management function has assigned the role of an employee in a senior management position under Art. 106 of the AML Act and the role of a compliance officer responsible in the field of prevention of money laundering and terrorist financing, in the meaning of p. 4.2 of guidelines EBA/GL/2022/05 from 14.06.2022.

The AMLCFT **Department** organizes, coordinates, manages and supervises the activities related to the prevention of money laundering and financing of terrorism in DSK Bank, in accordance with the above-mentioned national, international and group legal framework.

The AMLCFT **Department** provides methodical assistance and controls the activities of DSK Bank's subsidiaries, instructing them on measures to eliminate inconsistencies in the field of prevention of money laundering and terrorist financing.

Internal Audit Directorate is a structural unit for independent internal audit.

The organizational positioning ensures independency in planning and performing the internal audit activity, and the reporting is carried out at highest management level – Management Board, Audit Committee, Supervisory Board, Internal Audit Department of OTP Bank Hungary.

The purpose, powers and responsibilities of Internal Audit Directorate are regulated by the Internal Audit Rules of DSK Bank AD. The Rules are in compliance with the applicable stipulations of: the Bulgarian National Bank Act, Credit Institutions Act, Regulation № 10 of Bulgarian National Bank dated 24 April 2019 on the organization, management and internal control of banks, Financial Supervision Commission Act, Act on the public offering of securities, Act on the special investment purpose companies, Act on the implementation of measures against market misuse with financial facilities, Financial Facilities Markets Acts.

The activity focus is determined by the risk assessment for the individual types of activities and management units of DSK Bank and its affiliates; by the expectations of the senior management, by the strategic plan of the Bank and the business continuity plan; by the business plan, the budget and the investment policy of the Bank; by the continuous optimization of management processes and banking operations, centralization of activities and processes, offering of new banking products and the related software, development and implementation of new software products.

3. Information as per Art.100n, para. 8, item 4

Information as per Article 10, paragraph 1, letters "c", "d", "e", "g" and "j" of Regulation 2004/25/EC of the European Parliament and the Council dated 21 April 2004 regarding the merger proposals:

- 3.1. DSK Bank AD has no shareholders possessing shares with special control rights;
- 3.2. DSK Bank AD has no restrictions implemented on the shareholders' vote rights;
- 3.3. The rules used for regulating the appointment or change of the members of the Management Board and the Supervisory Board and amendments of the Articles of Association are:
 - The Articles of Association of DSK Bank AD;
 - The Governance Rules of DSK Bank AD and Section V. Decision-making Mechanism thereto;
 - Policy for assessing the aptitude of the members of the Management Board and the Supervisory Board, the executive directors and key holders in DSK Bank and its affiliates;
 - Rules on the conflict of interests.
- 3.5.1 The powers of the Supervisory Board and the Management Management Board of DSK Bank AD are defined in:
 - The Articles of Association of DSK Bank AD;
 - The Governance Rules of DSK Bank AD and Section V Decision-making Mechanism thereto.

3.5.2. The members of the Supervisory Board and the Management Board of DSK Bank AD have no right to make decision for shares emission or redemption.

4. Information as per Art.100n, para.8, item 5

Composition and functioning of the administrative, management and Supervisory Boards and the committees thereto:

4.1. The composition and the requirements on the composition of the management and supervisory bodies, the Audit Committee, the Risk Committee, the Nomination Committee, the Remuneration Committee, the Assets and Liabilities Committee, the Investment Committee, the Product development, pricing and sales Committee, the Credits and Limits Council, the Work-out Committee, the Data and Analytics Committee and the Operational Risk Management Committee of DSK Bank AD are defined in:

- The Articles of Association of DSK Bank AD;
- Governance Rules of DSK Bank AD;
- Rules of procedures of the relevant committee.

4.1.1. Composition of the Supervisory Board

The Supervisory Board consists of at least 3 and no more than 7 members meeting the requirements of Art.10 and Art.11 of the CIA, regulations of the BNB for their implementation and Guidelines EBA/GL/2021/05 and EBA/GL/2021/06 of the EBA.

One third of the members of the Supervisory Board are independent as per the meaning of Art. 10a, para. 2 of the CIA and Guidelines EBA/GL/2021/06 of the EBA.

4.1.2. Composition of the Management Board

The Management Board consists of at least 3 and no more than 9 members meeting the requirements of Art.10 and Art.11 of the CIA, regulations of the BNB for their implementation and Guidelines EBA/GL/2021/05 and EBA/GL/2021/06 of the EBA.

4.1.3. Composition of the Audit Committee

The Audit Committee consists of three members, elected and discharged with a decision of the General Meeting of the Shareholders of the Bank on the basis of a proposal by the Chairperson of the Management Board, meeting the requirements set in the Independent Financial Audit Act, as two of the members need to meet the independence requirements of Art. 10a, para. 2 of the CIA.

4.1.4. Composition of the Risk Committee, the Nomination Committee, the Remuneration Committee

The three committees shall consist of at least three members elected by the Supervisory Board of the Bank among its members, the majority (at least two) of the members of each of the Committees must be independent within the meaning of Art. 10a, para. 2 CIA. The Chairperson of the Risk Committee may not be at the same time the Chairperson of the Nomination Committee, the Remuneration Committee or the Audit Committee, as well as the Chairperson of the Supervisory Board of the Bank.

4.1.5. The members of the committees to the Management Board are determined by positions among DSK Bank's employees in the Governance Rules of the Bank.

4.2. The functioning of the management and supervisory bodies and committees of DSK Bank AD is defined in:

- The Governance Rules of DSK Bank AD;
- The Rules of procedure of the Supervisory Board of DSK Bank AD;
- The Rules of procedure of the Management Board of DSK Bank AD;
- The Statutes of the Audit Committee of DSK Bank AD;
- The Rules of procedure of the Risk Committee of DSK Bank AD;
- The Rules of procedure of the Nomination Committee of DSK Bank AD;
- The Rules of procedure of the Remuneration Committee of DSK Bank AD;
- The Rules of procedure of the Assets and Liabilities Committee of DSK Bank AD;
- The Rules of procedure of the Investment Committee of DSK Bank AD;
- The Rules of procedure of the Product Development, Pricing and Sales Committee of DSK Bank AD;
- The Rules of procedure of the Credits and Limits Council of DSK Bank AD;
- The Rules of procedure of the Work-out Committee of DSK Bank AD;
- The Rules of procedure of the Data and Analytics Committee of DSK Bank AD;
- The Rules of procedure of the Operational Risk Management Committee of DSK Bank AD.

4.3. The functions of the **Supervisory Board** of the Bank are as follows:

- Performing overall supervision on the legality and expediency of the banking activity and the work of the executive bodies.
- Monitors the implementation of the decisions of the General Shareholders' Meeting and the Management Board.
- Oversees and monitors management decision-making and actions.
- Exercises effective oversight of the activity of the Management Board, including monitoring and scrutinising its individual and collective performance and the implementation of the Bank's strategy and objectives.
- Constructively challenges and critically reviews proposals and information provided by members of the Management Board, as well as its decisions.
- Establishes risk, remuneration and nomination committees.
- Ensures and periodically assesses the effectiveness of the institution's internal governance framework and takes appropriate steps to address any identified deficiencies.
- Oversees and monitors that the Bank's strategic objectives, organisational structure and risk strategy, its risk appetite and risk management framework, as well as other policies and the disclosure framework are implemented consistently.
- Monitors that the risk culture of the institution is implemented consistently.
- Oversees the implementation and maintenance of corporate culture and values to identify, manage and mitigate actual and potential conflicts of interest.
- Oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework.

- Reviews and approves the quarterly reports of the Management Board on its activities, including on changes to the organisational and management structure of the Bank, made during the reporting period.
- Ensures that the heads of internal control functions are able to act independently and, regardless the responsibility to report to other internal collective bodies, business lines or units, can raise concerns and warn the Supervisory Board directly, where necessary, when adverse risk developments affect or may affect the Bank.
- Monitors the implementation of the internal audit plan, after the prior involvement of the Risk and Audit committees.
- The interaction between the Supervisory Board and the internal control functions and its tasks in respect of those functions, apart from the present rules, are regulated on one hand in the rules of procedure of the Supervisory Board, its committees and the Audit Committee, and on the other hand in the internal acts regulating the activity of each of the internal control functions.
- The Supervisory Board performs its functions by exercising the following powers.
 - At its discretion, requests from the Management Board information or reports on each issue relevant to the activities of the Bank.
 - Approves:
 - Business strategy, including the strategic and annual business plan and budget of the Bank.
 - Risk Appetite Framework.
 - Environmental, Social and Governance (ESG) Strategy.
 - Non-Performing Loans Strategy.
 - Compliance strategy including anti-money laundering and combating the financing of terrorism strategy.
 - The rules of procedure of the Management Board.
 - Fundamental internal rules and policies, if provided for in Governance rules.
 - Adopts:
 - Policies regulating the individual and collective suitability assessments of the members of the Management Board and Supervisory Board and of the persons holding key positions in the Bank, containing also rules on the composition and continuity of the members of the boards.
 - Remuneration policy.
 - Diversity policy.
 - Rules of procedure of the Supervisory Board.
 - Elects and dismisses the members of the Management Board and determines their remuneration and mandate. The changes in the membership of the Management Board shall not be acted upon without the prior approval of the BNB.
 - Approves the decisions of the Management Board on:
 - Election and dismissal of the Chairperson and any Deputy Chairperson (if elected) of the Management Board, the Chief Executive Officer, and the Executive directors.
 - Commence or cease activity within the granted banking license.
 - Fundamental changes in the organisational and management structure of the Bank, specified in these Governance Rules and opening and closing down branches within the meaning of the Commercial Code.
 - The establishment of other funds in addition to the mandatory ones and for determining the conditions for the use of such funds.
 - Granting internal loans if provided by law or internal regulations of the Bank.
 - Establishment of companies.
 - Acquisition and disposal of shares and stakes of the Bank in banks and other companies, held for investment purposes as specified in Governance Rules.
 - Calls the General Shareholders' Meeting and of the Management Board.
 - Reviews and submits for approval to the General Shareholders' Meeting, the annual financial statements, the report for the activity of the Bank and the proposal of the Management Board for the allocation of profit.

- Elects among its members, the members of the Nomination Committee, the Risk Committee, and the Remuneration Committee (the Committees), supporting the activity of the Supervisory Board, and adopts their rules of procedure, containing among others:
 - Role and functions of the committee.
 - Way of working and procedural rules.
 - Contributors to the activity of the committee, collaboration and interaction between: the contributors and the committee, the committee and the other committees, including the Audit Committee, between the committee and the internal control functions and the committee and the Supervisory Board.
 - Methods for effective control by the Supervisory Board regarding the activities and decisions of the committee.
 - Regular reporting of the committee body to the Supervisory Board.
- Performs other functions as provided for by law, the Articles of Association and other internal regulations of the Bank and shall give an opinion on any issue referred to it by the General Shareholders' Meeting.

4.4. The functions of the **Management Board** of the Bank are as follows:

- Defines and adopts the strategies of the Bank, including but not limited to:
 - Business strategy, including the strategic and annual business plan and budget of the Bank.
 - Risk strategy, including the levels of risk appetite and risk tolerance, risk management framework.
 - Environmental, Social and Governance (ESG) Strategy.
 - Non-Performing Loans Strategy.
 - Compliance strategy including anti-money laundering and combating the financing of terrorism strategy.
- Defines and adopts key policies, rules, methodologies and procedures of DSK Bank in compliance with the applicable legal and regulatory framework to ensure adequate and effective internal governance and performans of Bank's activities, including but not limited to:
 - For the organizational structure, activity and functioning of the internal control in the Bank, that shall include the independent risk management function, compliance function, including anti-money laundering and combating the financing of terrorism compliance function and internal audit function, as the interaction between the Management Board and the internal control functions and its tasks in respect of those functions, apart from the present rules, are regulated on one hand in the rules of procedure of the Management Board, its committees and the Audit Committee, and on the other hand in the internal acts regulating the activity of each of the internal control functions.
 - For internal capital and regulatory capital management, for preparation of the Internal capital adequacy analysis (ICAA), which presents the adequacy of the regulatory and internal capital to cover the risks related to the Bank's activity, that is subject of adoption by the Management Board.
 - For liquidity management as well for the liquidity management plan in the event of a liquidity crisis, for preparation of Internal liquidity adequacy analysis (ILAA), that is subject of adoption by the Management Board.
 - For management of risks, including: credit risk, operational risk, market risk, liquidity risk, interest rate risk in the banking book, strategic risk and other risks considered material, as well as the methodologies for determination of risk-taking limits and for evaluation of risk exposures.
 - For establishment and mentainance of risk culture in the Bank that addresses the risk awareness and risk-taking behaviour.
 - For the establishment of corporate culture and values in DSK Bank, which fosters responsible and ethical behaviour.

- For avoidance of conflicts of interest.
 - For internal alert submission.
 - For ensuring the integrity of the accounting and financial reporting systems.
 - For ensuring the financial and operational controls and compliance with the law and relevant standards.
 - For planning methodologies and planning process, and of controlling principles.
 - The income policy implementation rules of the Bank and the Banking group.
-
- Makes decisions in respect of implementation and carrying out the Bank's strategies and policies.
 - Makes decisions for commence or cease activity within the granted banking license.
 - Makes decisions for the election and dismissal of the Chairman and any Deputy Chairman (if elected) of the Management Board, the Chief Executive Officer and Executive directors.
 - Reviews the quarterly financial statements of the Bank and signs off and submits the annual financial statement for approval to the General Shareholders' Meeting through the Supervisory Board.
 - Proposes through the Supervisory Board to the General Shareholders' Meeting a method for allocation of the annual profit by determining the part payable to the Reserves fund and other funds, as well as the part payable as dividend or to be used for capital increase.
 - Proposes to the General Shareholders' Meeting the selection of two auditing companies, to conduct joint audit of the Bank's annual financial statements and of the supervisory statements, determined by the BNB.
 - Calls the General Shareholders' Meeting.
 - Adopts Rules of procedure of the Management Board.
 - Is responsible for exercising effective control over the senior executives, subordinated direct to the Chief Executive Officer and to the Heads of Divisions.
 - Makes decisions on changes of the organisational and management structure of the Bank, consisting of opening and/or closing of fundamental and/or independent units in the Bank's structure and opening and closing down branches within the meaning of the Commercial Code.
 - Makes decisions on granting internal loans, large loans and other loans if provided by law or internal regulations of the Bank.
 - Makes decisions on obtaining of loans and credit lines by the Bank and placement of collateral, incl. for third parties.
 - Oversees the process of disclosure and communications with external stakeholders and competent authorities.
 - Makes decisions for establishment of companies, for the acquisition and disposal of shares and stakes in companies.
 - Makes decisions to exercise the rights attaching to the Bank's participation in companies, concerning increase and decrease of the capital, transformation, termination of the activity and liquidation of the company.
 - Makes decisions for appointment of a procurator.
 - Makes decisions for establishment of other funds in addition to the mandatory ones and determines the conditions for the use of such funds.
 - Reports on its activity at least once quarterly to the Supervisory Board, including on changes to the organisational and management structure of the Bank, made during the reporting period.
 - Reports forthwith to the Chairman of the Supervisory Board all the circumstances that may be reasonably considered to have a significant impact on the Bank or its operations.
 - Adopts decisions for:
 - Establishment of collective bodies that shall support the activity of the Management Board.

- Defines their role, composition and functions.
- Adopts rules of procedure of the collective bodies, supporting the activity of the Management Board, containing:
 - Way of working and procedural rules.
 - Contributors to the activity of the collective body, collaboration and interaction between: the contributors and the collective body, the collective body and the other collective bodies, if applicable, between the collective body and the internal control functions and the collective body and the Management Board.
 - Methods for effective control by the Management Board regarding the activities and decisions of the collective body.
 - Regular reporting of the collective body to the Management Board.
- Makes any other decisions to the Bank's activity as provided for by law, the Articles of Association, the Governance Rules or any other internal regulations of the Bank or if it considers for necessary to make such decisions and they are not within the exclusive competence of the General Shareholders' Meeting or the Supervisory Board.

4.5. Functions of the **Audit Committee** of the Bank are as follows:

- Informs the Management Board for the results of the statutory audit and clarifies in what way the statutory audit has contributed to the reliability of the financial report, as well as the Audit Committee's role in this process.
- Supervises the process of financial reporting and provides recommendations and proposals in order to guarantee its effectivity.
- Supervises the effectivity of the internal audit system, the risk management system and internal audit activity as regards the financial reporting in the bank, including considering the impact of environmental, social and governance risks.
- Supervises the statutory audit of the annual individual and consolidated financial statements by taking into consideration the findings and conclusions of the Commission for Public Supervision of the Registered Auditors in relation to the inspections of the registered auditor's work made, aiming at ensuring its quality.
- Inspects and supervises the independence of the registered auditors in accordance with statutory requirements, including the expediency of the provision to the bank of non-prohibited non-audit services, by providing approval in advance for the conclusion of contracts for such services with the registered auditor.
- Notifies the Commission for Public Supervision of the Registered Auditors and the Management Board of the bank within 7 days following each approval given for the conclusion of contracts for non-prohibited non-audit services and each approval given in accordance with Art. 66, para. 3 of the Independent Financial Audit Act.
- Is responsible for the procedure of selection of the registered auditors, which shall jointly conduct independent financial audit of the annual individual and consolidated financial statements of the Bank, and to recommend the General Shareholders' Meeting their appointments, respectively to postpone withdrawal of registered auditor.
- Reports its activity to the General Shareholders' Meeting.
- Draws up and presents to the Commission for Public Supervision of the Registered Auditors until 31 May an annual report of its activities.
- Recommends to the Management Board to propose to the General Shareholders' Meeting the early dismissal of each of the registered auditors if there are reasonable grounds for their dismissal.
- Performs other functions specified in the Statute of the Committee.

4.6. The functions of the **Risk Committee, the Nomination Committee, the Remuneration Committee** of the Bank are as follows:

- **The Risk Committee** provides advice to the Supervisory Board and the Management Board on the Bank's overall current and future strategy and risk appetite, and its operation is detailed in the Governance Rules and Rules of Procedure of the Risk Committee of DSK Bank AD.
- **The Nomination Committee** performs selection of nominees for members of the Management Board, and its operation is detailed in the Governance Rules and Rules of Procedure of the Nomination Committee of DSK Bank AD.
- **The Remuneration Committee** provides the opportunity to take competent and independent decisions regarding remuneration policies and practices, as well as the incentives created through them for risk, capital and liquidity management, and its operation is detailed in the Governance Rules and Rules of Procedure of the Remuneration Committee of DSK Bank AD.

4.7. Functions of the Committees to the Management Board:

- **The Assets and Liabilities Committee** implements control over the management of assets and liabilities of the Bank aiming at achieving maximum return in line with the approved by the Management Board budget targets and risk appetite, and its operation is detailed in the Governance Rules and Rules of Procedure of the Assets and Liabilities Committee of DSK Bank AD.
- **The Investment Committee** manages the Bank's investment program and large expenses for maximum return on investments, as its operation is detailed in the Governance Rules and Rules of Procedure of the Investment Committee of DSK Bank AD.
- **The Product Development, Pricing and Sales Committee** manages and develops products, services and bundles of products and services while optimising their profitability for the Bank with the goal of satisfying the clients' needs, maintaining leadership positions, increasing the Bank's competitiveness, and increasing the customer base, as its operation is detailed in the Governance Rules and Rules of Procedure of the Product Development, Pricing and Sales Committee of DSK Bank AD.
- **The Credits and Limits Council** is responsible for the decision-making in connection with ensuring the optimal risk-benefit balance in line with the strategy of the Bank on lending to larger corporate clients and with regulating of the state and counterparty risk, which the Bank assumes when concluding deals with countries and financial institutions, as its operation is detailed in the Governance Rules and Rules of Procedure of the Credits and Limits Council of DSK Bank AD.
- **The Work-out Committee** is responsible for management and restructuring of non-performing loans, as its operation is detailed in the Governance Rules and Rules of Procedure of the Work-out Committee of DSK Bank AD.
- **The Data and Analytics Committee** is responsible for the management and development of the data received and processed in connection with the overall activities of the Bank, as its operation is detailed in the Governance Rules and Rules of Procedure of the Data and Analytics Committee of DSK Bank AD.
- **The Operational Risk Management Committee** monitors the level of operational risk and the efficiency of the control environment in DSK Bank and the companies of the group by proposing adequate risk mitigating measures and how to optimize the internal control mechanisms, as its operation is detailed in the Governance Rules and Rules of Procedure of the the Operational Risk Management Committee of DSK Bank AD.

5. Information as per Art.100n, para.8, item 6

Description of the diversity policy applied in regards to the administrative, management and supervisory bodies:

DSK Bank ensures the diversity in way of:

- Balanced gender and age structure on all levels of management and control;
- Educational level and various fields of knowledge (finances, law, IT) in compliance with the national regulatory requirements;
- Appropriate professional experience for the relevant positions in compliance with the regulatory requirements.

The diversity in DSK Bank is related to the continuity between the traditions in historical aspect and the rapid adaption to the new technologies in the field of the financial services.



Tamás Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

NON-FINANCIAL DECLARATION
As per Art. 41 and Art.48 of the Accountancy Act

I. PURPOSE

DSK Bank strives to establish and maintain high client service standards, advanced and suitable products and services, best corporate and ethic practices in its relations with all interested parties following the relevant legislation.

One of Bank's key objectives is also to become a market leader in regard to all banking segments, and at the same time to emphasize on many initiatives in the field of sustainable development. The Bank maintains its trusted leader position among the users of bank and financial services in the country and most preferred bank employer for the students.

II. STRATEGY

The banking industry is facing various challenges in the environment in which it operates, such as geopolitical risks, internal instability related to changing political dynamics, inflation, increasing interest rates, strong competition and increasing regulatory requirements, combined with internal pain points. Our ambition is to ensure the Bank is navigating these conditions successfully and accomplishing its business strategy while continuously improving the Group's financial results. The aim of the Bank is to lead digital and physical banking via sustainable competitive advantage, through customer obsession and innovation. Such sustainable competitive advantage will be achieved through the combination of three main business directions:

- People and practices: Focus on the people in the organization as a main driver of internal transformation processes bringing value to the customers;
- Data: Utilize data driven processes ensuring competitive advantages, fast decision taking and regulatory compliance;
- Infrastructure: Digitalize and modernize all customer journeys in omnichannel environment.

All of these strategic areas will be developed in a dynamic business environment while meeting regulatory expectations and turning challenges into opportunities.

III. ORGANIZATIONAL STRUCTURE, INFRASTRUCTURE, PRODUCTS

DSK Bank (hereinafter, the Bank) is a subsidiary of OTP Bank Nyrt., Hungary, which is the majority shareholder of the Bank and holds 99.9 % of the equity. OTP Bank is the biggest provider of financial services in Hungary and a regional market leader for Central and South-east Europe.

Together with its affiliated companies DSK Bank provides a wide range of additional services, such as: pension insurance, assets management, operational and financial leasing.

IV. POLICIES APPLIED IN REGARD TO THE MAIN AND AUXILIARY ACTIVITIES

Client Services

The focus on the customer and the quality of the customer journey are among the main priorities for DSK Bank and are the basis of all activities related to digitalization and its development. After the successful finalization of the process of the legal merger of Expressbank AD into DSK Bank, which took place at the beginning of May 2020, and the highest priority placed on the quality of customer service, DSK Bank continues to apply an innovative metric to measure the customer experience. The measurement method allows the client to give his assessment of the service at the Bank's office immediately after a visit. This approach guarantees transparency and provides an opportunity to take immediate actions in the direction of improving the client's satisfaction when using the Bank's products and services. The metric used is the transactional NPS (Net Promoter Score) - a leading global indicator for measuring customer experience. The transactional Net Promoter Score also increased in 2023 compared to 2022, with which a higher level of service quality in the Bank's offices is reported for the third year in a row. This result shows the effectiveness of the actions taken by DSK Bank in this direction. In 2023, regular measurement of customer service in the Contact Center was implemented too.

The level of satisfaction with the main banking products and services used by customers is also monitored. DSK Bank continues to work towards improving customer service through improvement and customer orientation of all service channels. The Bank has a wide branch network of over 200 bank offices throughout the country, a 24/7 Contact Center, electronic banking channels, self-service machines and Bank@work - a channel for on-site service at employers. Following the trends of shifting a large part of transactions to machine and electronic channels, as well as the increasing expectations of customers regarding consulting in bank offices, the Bank has successfully implemented a new customer service model "mass segment" throughout the branch network. The model provides specialized customer service depending on the reason for the visit to the office, and those of them who entered only for transactional service can count on speed and reduced waiting and service time. Customers interested in a banking product or service receive individual consultation from a front office employee. The model is an additional tool to ensure a better customer experience, including through effective management of customer flow through the implemented queue management system in a large part of the bank's offices.

Another tool for increasing customer satisfaction is the Standard for internal and external layout of DSK Bank offices introduced at the end of 2023. It unifies the internal and external office design, marketing materials and equipment in the different types of bank offices. The purpose of the standardization is to achieve a corporate identity of the bank's offices with the interior model of OTP Group and recognition as a benchmark for quality and a good image among the bank's customers. And last but not least, regarding the improvement of customer service, DSK Bank continues to invest efforts in regular research of the financial services market, looking for new opportunities for improvement, as well as to monitor the direction of development of the already imposed market standards in the customer service.

V. MODERN PRODUCTS AND SERVICE CHANNELS

As an acknowledged leader on the market of innovative products and digital services in the banking field, the Bank develops various projects with the approach of **complete online servicing**. In order to improve the clients' experience, and to provide easy and fast access to our financial products and services, DSK Bank constantly develops the functionality of its remote banking platforms DSK Direct and DSK Smart. The team of the financial institution continues to work on their improvement so to make them as far as possible more comfortable and easier for use by the clients.

Using the Evrotrust application the clients of DSK Bank may **apply, receive and use their consumer loan totally online without visiting bank offices**. The process is very simplified in order to make it comfortable and accessible for the clients. They can receive a loan contract through the application on their mobile phone, to read and sign it, and then returned it to the Bank. Option for documents signing using the QES is provided also for the Premium clients, as thus they save time, perform their operations faster and more efficiently, and have 100% security of their personal data. Using Evrotrust and the call centre of the financial institution, the clients who are temporary out of the country, may perform remote electronic operations, which require signing. For example – access to electronic and mobile banking, application for signing method, registration of mobile phone number for 3D password required for online shopping, opening a bank account, issuing of debit cards for individuals, etc.

Since 2012 the Bank has provided for the students a comfortable option to pay their educational fees using the DSK Direct electronic banking, and this service became especially relevant in 2020. This application makes the payment of university fees very easy, only a few clicks. In addition to time saving, the payment through DSK Direct saves resources, as the bank fees for electronic transfer are lower than those on site at the bank offices. The above advantages may be used by the students at the Naval Academy “N.I.Vaptsarov”, Varna, the University of National and World Economy, the Technical University, New Bulgarian University and Varna Medical University.

VI. SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

DSK Bank continues to pursue our strategic priorities for sustainable¹ development with focus on evolving business and supervisory expectations. Our Environmental, Social and Governance (ESG) framework is founded on three core pillars, consistent with the OTP Group Strategy, which guide our day-to-day activities, namely:

| Responsible service provider | Responsible employer | Responsible social actor |
|---|---|---|
| Offering products and services which aim to foster transition to low-carbon economy, in alignment with robust ESG risk management practices | Committing to a strong governance model and improving our employees’ engagement, development and well-being | Pursuing ambitious goals to reduce our own carbon footprint and actively contributing to the development of the community and the protection of the environment |

1. Responsible service provider

A. Client relationships and business opportunities

We recognize our influence on society and continuously explore various opportunities and solutions through our engagement with clients to contribute to the transition to climate-neutral economy and protect the environment. The Bank requires full adherence to the related environmental legislations and further pursues ambitious goals for sustainable financing to be achieved by the end of 2025, including:

- DSK Bank to reach 344 MEUR volume of new loans for renewable energy production projects;
- DSK Bank to reach 56 MEUR volume of new green bond eligible loans for real-estate projects;
- OTP Leasing to reach 35% share of new leased passenger cars with hybrid engine or fully electric motor;
- DSK Bank to reach 48 MEUR volume of new retail mortgage and housing loans for purchase of residential assets with energy efficiency class B or better.

In 2023 we exceeded our interim targets for renewable energy production and kept strong momentum in growing our electromobility and retail mortgage volumes.

¹ The use of the terms “green” or “sustainable” in this document does not suggest alignment with the EU Taxonomy

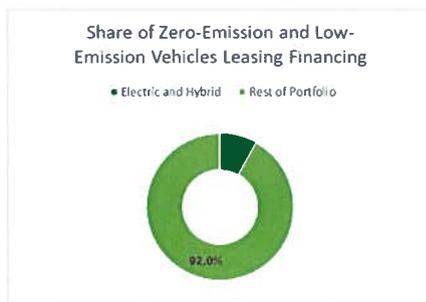
Figure 1: DSK Bank share of renewable energy projects, 2023



Sustainable, energy efficient buildings, and increased renewable power capacity are fundamental for the green transition. The Project Finance division of DSK Bank is focused on increasing our green loans for construction and renewable energy, in line with our specific targets for new green financing set as part of the DSK ESG Strategy. We believe that such strategic investments are central to the Bank's response to climate risk challenges.

As of the end of 2023, loans for renewable energy projects made up 11.8% of our corporate portfolio (up from 5.42% in the previous year), which makes it the sector with highest exposure. The total of 158 loans has a gross carrying amount of 416 MEUR, which is invested into projects both for energy production and own use. Most projects are solar photovoltaic parks and onshore wind farms. One of them is a solar park with installed capacity of more than 120 MWp.

Figure 2: OTP Leasing share of zero-emission and low-emission vehicles leasing financing, 2023



While Bulgaria is still relatively in the beginning of its transition, we observe growth in the leasing financing of zero-emission or low-emission assets. If in 2021 only about 1% of the portfolio of OTP Leasing was for financing electric vehicles, then at the end of 2023 the share of such assets is already over 3%. The financing of cars with a hybrid engine also continues actively, with the total share of low-emission vehicles exceeding 5% of the leasing portfolio. At the end of 2023, the share of electric and hybrid vehicles is 8% of the total OTP Leasing portfolio (compared to 5.84% in 2022).

In our retail mortgage business, the Bank continues its campaign to promote awareness for the advantages of energy efficient properties and provides promotional waiver of certain fee for all mortgage types with real estate collateral with a high class of energy efficiency - class A+, A or B.

Our DSK Agro business also supported clients in the agriculture sector with their sustainable transition through various initiatives in 2023 that fostered awareness of current and upcoming requirements as well as related innovation opportunities and projects. For example, the Bank organized an informational campaign and webinar on "Investments in technological and ecological innovation in agriculture – National Plan for Recovery and Resilience" to assist clients with planning innovation projects and access to available financial support. The portfolio of subsidy related loans reached 39 MEUR as of the end of 2023.

Our intention is to continue the efforts for providing sustainable business solutions to our clients and responding to society's needs by responsible financing, consistent with the expectations and criteria set out in our OTP Sustainable Finance Framework, Green Loan Framework and other recognized classification systems for sustainable finance such as the EU Taxonomy and Climate Bond Initiative.

B. Climate and environmental risk management framework

At DSK Bank, ESG risks are identified and assessed as a set of risk drivers, affecting the likelihood and severity of traditional risk types (e.g., credit risk, market risk, reputational risk, etc.).

Throughout 2023, climate and environmental risks (“E” factor) continued to dominate the risk landscape. To reflect our commitment to prudent risk management and meeting related evolving supervisory expectations (e.g., those of the European Central Bank (ECB)), in Q4 2023 we integrated a new fourth pillar in our ESG Strategy for “Regulations and Supervision”. We also mobilized a Climate and Environmental Risk Program (an evolution of our previous Project ECO), under the sponsorship of DSK Bank Chief Executive Officer and Chief Risk Officer with accountability to strengthen our organizational capabilities for C&E risk management and support related business opportunities. The program brings together our teams across functions, including Business, Risk, Finance, Human Resources, Public Relations, Technology, who collaborate to meet our common goals. Our progress is regularly measured against established key performance and risk indicators (KPIs and KRIs) and monitored by our management.

The Management Board of the Bank oversees climate-related and environmental risks and approves related key policies, procedures and methodologies. The Management Board and the Supervisory Board of the Bank continue to be the governing bodies for approval of the Bank’s ESG strategy.

Management reports on the credit portfolio quality and its ESG risk distribution are provided to relevant governance committees on a monthly and quarterly basis. In this way, a constant flow of consistent and up-to-date information is ensured, which is considered in the strategic and management decisions of the Bank’s management bodies. Specific performance evaluation criteria are defined in the annual objectives of those members of DSK Bank’s Board of Directors who are assigned direct responsibilities for ensuring compliance with the intended approach to managing climate and environmental risks.

The following sections provide additional details related to DSK Bank’s:

- ESG Risk Appetite;
- Risk Identification and Materiality Assessment of Climate and Environmental Risks;
- ESG Risk Assessment and Monitoring Process;
- Scenario Analysis and Stress Testing;
- Investment Risk Management Policy.

i. ESG Risk Appetite

As a member of OTP Group, DSK Bank supports its aim of becoming the regional leader in financing a fair and gradual transition to a low-carbon economy and building a sustainable future through responsible financial products and services. We also aim to position DSK Bank as a leader on the Bulgarian banking market in terms of sustainable financing. Effectively managing ESG-related risks is key for achieving this goal.

DSK Bank has incorporated ESG risks into our core risk management framework.

As part of our risk appetite, we continue to operate in accordance with the established ESG exclusion list, which defines the activities that are not supported by us and our new customers should not engage in them, such as:

- Transactions with the purpose to violate legal regulations of the host country or international law, for example:
 - Illegal arms trade;
 - Prohibited gambling;
 - Illegal trading in drugs;
 - Production or trade in products containing PCBs (Polychlorinated biphenyls are a group of highly toxic chemicals);
 - Production or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans;
 - Production or trade in ozone depleting substances subject to international phase out;

- Trade in wildlife or wildlife products regulated under CITES;
- Transboundary movements of waste prohibited under international law.

- Trade in goods without required export or import licenses or other evidence of authorisation of transit from the relevant countries of export, import and, if applicable, transit.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Mining, exploration and upgrading of shale gas in Europe.
- Coal mining using “Mountain Top Removal” technique.
- The keeping of animals for the primary purpose of fur production or any activities involving fur production.
- The manufacture, placing on the market and use of asbestos fibres, and of articles and mixtures containing these fibres added intentionally.
- The export of mercury and mercury compounds, and the manufacture, export and import of a large range of mercury added products.

Adherence to the ESG Exclusion List is monitored monthly with zero-threshold tolerance.

ii. **Risk Identification and Materiality Assessment of Climate and Environmental Risks**

In 2023 DSK Bank conducted its regular risk identification and materiality assessment review of climate and environmental risks. As part of the risk identification process, the Bank has identified the transmission channels of physical, transition and other environmental risks across the traditional risk types (credit, market, operational, reputational risks etc.)

In the methodology, materiality is defined as material sensitivity of the traditional risk types' KRIs from the risk appetite framework to C&E risks. The materiality scoring is calibrated on a scale from 1 to 5, as follows:

- (1) Low: KRI is not expected to be impacted by C&E risks to a notable degree.
- (2) Med-Low: KRI is expected to be impacted by C&E risks to a small degree, which, however, doesn't impact the KRI's level significantly. Risk profile level is expected to stay within the predefined acceptable level.
- (3) Medium: KRI is expected to be impacted by C&E risks to a degree that its value approaches undesired risk profile levels.
- (4) Med-High: KRI is expected to be impacted by C&E risks to a degree that its value significantly exceeds the risk appetite level's threshold, but is unlikely to cross the red zone threshold.
- (5) High: KRI is expected to be impacted by C&E risks, and the KRI risk profile level is expected to significantly increase the risk appetite, potentially crossing the high risk (red zone).

The methodology includes assessment of the following transmission channels – climate transition risk, climate physical risk, environmental risk, and takes into consideration qualitative and quantitative factors, where feasible.

The materiality assessment review concluded that DSK Bank's Group continues to be materially exposed to climate related and environmental risks in the long-term perspective (i.e. more than 5 years).

Figure 3: DSK Bank climate and environmental risks materiality assessment, 2023

| Traditional risk type | Traditional risk type level materiality scoring | | | Impacted by | | |
|-----------------------------|---|--------------------|--------------------|------------------|--------------------|---------------|
| | Score ST <1 yrs | Score MT <5 yrs | Score LT >5 yrs | Climate physical | Climate transition | Environmental |
| Credit risk | Medium | Medium | High | High | High | High |
| Operational risk | Low | Medium | Medium | High | High | High |
| Market Risk | Low | Low | Low | High | High | High |
| Liquidity Risk | Low | Low | Low | High | High | High |
| IRRBB | Low | Low | Low | High | High | High |
| Credit spread risk | Low | Low | Low | High | High | High |
| Reputational risk | Low | Medium | Medium | High | High | High |
| Strategic and business risk | Low | Medium | Medium | High | High | High |

Legend: Low (White), Medium-low (Yellow), Medium (Orange), Medium-High (Red), High (Dark Red)

The potential impact of climate and environmental risks on short term is limited, as physical climate risks are not expected to deteriorate rapidly and the likelihood of a significant impact of transition risks on the customer profiles is small in the time horizon of one year.

On mid- and long term, acute and chronic physical risks can significantly affect the business environment in which the Bank operates, e.g. through physical damage to customer assets caused by floods, and thus adversely impacting the capacity of the borrowers to meet their obligations while also affecting collateral values (where applicable).

Transition risk is the main negative factor which has influenced the assessment of materiality in the long term. This risk can lead to further worsening of corporate credit portfolio quality by affecting more tangibly certain economic sectors with high ESG risk, and indirectly, by rising unemployment and reducing the wages of employees working in those industries – the retail banking segment also. The most significant potential impact of climate and environmental risks on long term can be expected on the quality of leasing portfolio due to tightened regulations in the field of vehicles carbon emissions, increasing production and operation costs (e.g. fuel prices), as well as scarcity of certain natural resources used in car electronics.

The potential impact of climate and environmental risks on the long term was assessed as Medium also on: operational risk (e.g. system disruption and physical damage to banking assets as a result of climate events), reputational risk (e.g. customer dissatisfaction in case of impossible access to bank premises and ATMs due to natural disasters) and strategic risk (e.g. significant increase of capital requirements and reducing profitability).

The following provides additional detail on the assessment of physical, transition and other environmental risks.

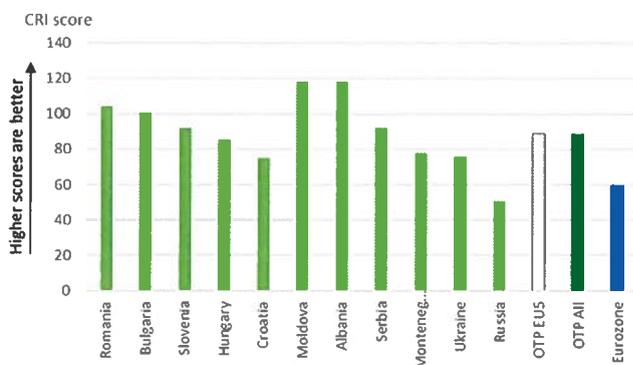
❖ Climate physical risks

Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events (e.g., acute physical effects such as storms and floods) and gradual changes in climate (e.g., chronic physical effects such as temperature changes), as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.

The Bank considers various transmission channels in assessing the climate physical risks (e.g., changes in temperature, floods, droughts), taking into consideration both qualitative and quantitative factors, where feasible.

In assessing the materiality of physical risks, the Bank considered the Climate Risk Index (CRI) score of GermanWatch – backward-looking indicator, that is prepared based on insurance events of the last two decades.

Figure 4: Climate Risk Index, Q1 2023



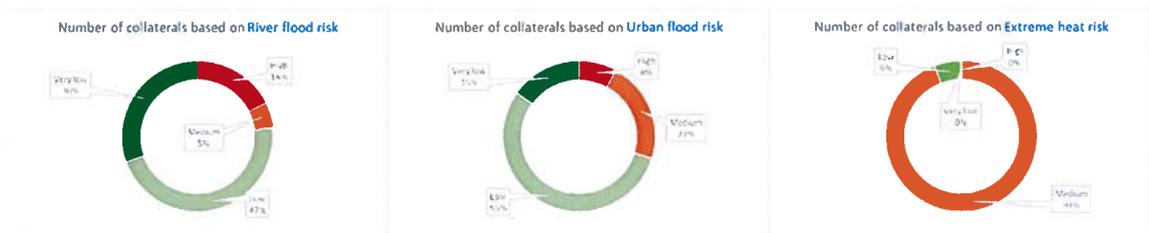
This indicator is presented on the chart for OTP Group countries and the Eurozone (indicator value for the eurozone is calculated based on GDP-weighted averages of country-level indicators).

It clearly shows that physical risk is lower for Bulgaria, than the average for the Eurozone.

However, physical risks could still have considerable impact on businesses. Therefore, as part of its materiality assessment, the Bank conducts more granular analysis of physical risks factors such as changes in mean air temperatures, wildfires, heatwaves and their potential impacts on productivity and risks of damages and losses across sectors (e.g., agriculture). The Bank also reviews the potential impacts to our risk exposures backed by residential and non-residential collateral, as climate change can diminish the value of collaterals, that cannot be re-located (mainly real estate), or even lead to a complete loss of collaterals (floods, wildfire). Even though it can be argued that such devastating climate events are not to be expected in the next 3-5 years, avoiding this type of risk in the future will require either fighting back climate change, or transition to less exposed (to climate change) collaterals, which would be a significant business model change.

Another perspective of the materiality of physical climate risks for the credit risk of the Bank can be the distribution of collaterals by the risk of the location (NUTS3 based). With nearly one quarter of the collaterals located in medium- or high risk NUTS3 regions, and almost all of them- in medium risk locations for extreme heat risk, it is evident that the materiality of physical risks is undisputable.

Figure 5: Collateral distribution based on level of physical risks (river flood, urban flood, extreme heat)



As it relates to the Bank’s own operations, physical risks, especially flood risk, could have a higher impact, especially on the longer-term as climate-change becomes more pronounced. According to the ECB Guide on climate-related and environmental risks the most common physical risks to which the Bank’s branches could be exposed are river floods, urban floods, extreme heat, and water scarcity. Based on ThinkHazard’s data, approximately 7,6% of all DSK Bank’s branches are located in high-risk communities for these physical risks.

However, the short-term impact of floods is expected to be rather immaterial (complete loss of physical assets is to a great extent transferred to insurance). Water scarcity, on the other hand can reduce the attractiveness of the impacted areas, leading to more difficult living conditions, cause migration to less impacted regions, thus impacting the very essence of the branch business model.

Figure 6: Geographical representation of flood and drought (water scarcity) risks and DSK Bank branch network



To mitigate risks, the Bank considers physical risks as part of the business continuity procedures of the branches. Digitalization and reduction in the number of branches will partially offset the increasing C&E impacts on mid- and long-term.

❖ **Climate transition risks**

The global economy requires significant transformation to remain viable in the journey towards achieving climate neutrality and meeting the Paris Agreement goal of keeping warming well below 2° C. The transition to a low-carbon economy will have widespread impacts at varying magnitudes for individual sectors which demands a more granular approach in the assessment of transition risks.

Transition risk refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

DSK Bank supplements the materiality assessment with an analysis of the probability and impacts of key transition risks drivers, including changes in policy and regulations, market sentiment, technology shifts, and supply chain disruptions. The sectors, using the NACE nomenclature, identified with predominantly moderate or high sensitivity to transition risks include the following:

- A. Agriculture, forestry, and fishing
- B. Mining and quarrying
- C. Manufacturing
- D. Electricity, gas, steam, and air conditioning supply
- F. Construction
- H. Transportation and storage
- L. Real estate activities

The corporate portfolio exposure to these sectors is presented in the following section.

The Bank continuously works to enhance this assessment as more quantitative data becomes available. The outcomes of the analysis are used by the Bank to inform the definition of more granular key risk indicators and further aligning our broader ESG strategy.

❖ **Other environmental risks**

In addition to the physical and transition risks of climate change, other environmental risks such as pollution, water stress, biodiversity loss and resource scarcity are also considered in the materiality assessment. Exposures to sectors or clients that are associated with such controversial activities could increase not only the credit risk (e.g., due to higher probabilities of default) but also the reputational risk of the Bank (e.g., environmental incidents such as pollution events could significantly harm an organization's reputation).

Given the sensitivity of reputational risks to such environmental risks, OTP Bank's Operational Risk Management Department executed a self-assessment which estimated the potential losses of six climate change and environmental related reputational risk events. For this assessment, the so-called DELFI approach was applied.

The six potential related risk events for which financial losses were estimated were the followings:

1. Sanctions imposed by the government based on alleged breaches of environmental regulations by the Bank,
2. Negative media coverage due to alleged pollutive projects financed by the Bank or alleged greenwashing,
3. Environment-related deficiencies with regard to investment products,
4. Negative industry-sentiment in the media attracting more scrutiny from stakeholders,
5. Enhanced public attention on carbon-intensive projects financed by the Bank,
6. Credit rating downgrade of OTP Bank, the parent company for DSK Bank, due to non-compliance with environmental standards.

There is no probability, frequency or possible time horizon determined for the materialization of these risk events, i.e. it is not assumed, that they would materialize within the same year or they would materialize ever again in the future. Thus, according to the self-assessment, the materialization of the covered 6 reputational risk events would result a total financial estimate of ~BGN 4.9m for DSK Bank, showing that the Bank is moderately exposed to such events.

Environmental risks are also factored in the ESG risk categorization of clients and transactions, described in the ESG Risk Assessment

and Monitoring section, and further mitigated through the Bank's ESG due diligence processes (e.g., exclusion list, client's ESG questionnaires). The exposure to various sectors is presented as well, including sectors which are considered to exhibit higher environmental risks (e.g., construction, manufacturing, transportation for pollution; agriculture for biodiversity loss). As the availability of data improves, the Bank will continue to enhance the granularity of its portfolio exposure analysis to specific environmental risks.

DSK Bank takes actions and implements adequate measures to limit the impact of climate and environmental risks on traditional banking risks depending on their type, e.g. through active financing of green projects, inclusion of ESG factors in the evaluation of real estate accepted by the Bank as collateral, asset insurance, digitization of products and services, inclusion of physical risks in the business continuity plan, etc.

Materiality assessment is also considered when updating strategic plans to adapt to market changes related to climate and environmental risks.

iii. ESG Risk Assessment and Monitoring

As part of our ESG Risk Management Framework in loan origination and monitoring, we embed ESG risks in our credit assessment. The Bank applies ESG risk categories on client and on transaction level. Assignment of the risk categories is based on the main business activity of the client and the tenor of the transaction considering the environmental and social impact of the related sectors.

The Bank defines the risk category of the clients through the ESG Risk Heat Map which categorises industries in four ESG risk categories:

- a) Low ESG risk: Industries that typically involve business activities with minimal or no adverse environmental and social impacts;
- b) Medium ESG risk: Industries that typically involve business activities with specific environmental and social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Medium-High and High ESG risk;
- c) Medium-High ESG risk: Industries that typically involve business activities with High ESG risks in nature but are considered important in reaching long-term sustainable social balance and economic growth in emerging markets;
- d) High ESG risk: Industries that typically involve business activities with significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive, if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites.

To determine the ESG risk category of transactions, two factors are considered: the ESG risk category of the client as indicated above and the (residual) length of the transaction determined according to ESG Transaction Risk Matrix. The length of the transaction is determined as follows:

- a) Short-term: residual maturity is equal to or less than 1 year (including the expired transactions or transactions with no fixed maturity, i.e. "until further notice");
- b) Medium-term: residual maturity is more than 1 year, but equal to or less than 5 years;
- c) Long-term: residual maturity is more than 5 years.

In 2023, the risk assessment methodology was updated to include a more calibrated approach for transactions, classified as "green" if they meet strict criteria prescribed in internal policies at OTP Group and DSK Bank level. Such transactions are considered low risk and are not subject to the ESG Transaction Risk Matrix.

Based on this assessment, the portfolio distribution according to the ESG risk category of the clients as of December 2023 is as follows:

Figure 7: Corporate portfolio distribution by industry sector and client ESG risk category, 2023



Within our risk appetite framework, we monitor a key risk indicator related to the share of high ESG risk transactions contracted with medium-high and high ESG risk corporate in the total volume of newly approved loans. As of December 2023, this KRI is at 4%, reflecting a reduction compared to the previous year (6%).

Starting in 2024, we will monitor an additional operative KRI related to the share (in new corporate lending) of high ESG risk transactions contracted with clients in segment “Manufacturing”. This KRI is introduced considering the transition risk vulnerabilities of the sector.

The ESG risk category of leasing transactions is determined according to the environmental impacts of the engine types (EURO engine standards) of the underlying assets and the EU directives regulating the subject. When determining the ESG risk category of a leasing transaction, the age of the engine of the underlying asset is taken into consideration as an approximation of the EURO engine standards.

For the riskiest sectors from ESG perspective, where a pre-defined exposure threshold is exceeded, an ESG due diligence questionnaire applies. The information gathered is channelled to the risk analysis and decision-making process.

OTP Group and DSK Bank require compliance with applicable environmental regulations in lending. At the time of internal approval of a project financing and before first disbursement, the availability of the necessary permits is required; in the case of specialized financing transactions the verification of permits is typically conducted with the involvement of external consultants (legal and/or technical experts). The credit agreements stipulate sanctions for any breaches of commitments. ESG clauses are gradually being introduced into contracts with clients. The first segment with ESG clauses in place is Specialized Finance, and the range of segments and clients will continue to expand. Our credit policy regulates the credit risk classification of each sector and provides guidance for our lending activities to different sectors. The policy is reviewed at least annually, but also in case of material changes in the business environment or underlying credit risks.

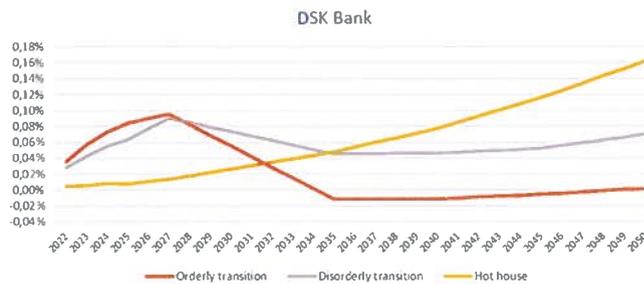
In the operational risk management, we have strengthened the assessment of ESG risks in the scenario analyses by analyzing a separate scenario related to climate change, and we also indicate the risks affected by ESG in both the risk control self-assessment and the loss database. Throughout 2023 we monitored the established KRI for the number of incidents caused by damage to physical assets as result of natural disasters and no breaches were reported.

iv. Scenario Analysis and Stress Testing

DSK Bank conducts periodic scenario analysis and stress tests to measure the potential impacts of climate risk on the portfolio of the Bank. The methodology is consistent with the stress test framework defined by OTP Group.

We apply a benchmark-based approach where the sensitivity to climate and environmental risks is compared to that of the Eurozone banks, leveraging the ECB's 2021 stress test on the impact of climate risk.

Figure 8: DSK Bank climate stress test of corporate portfolio – impact on annual losses (increase in expected loss)



Under the scenario, Bulgaria is assessed to be riskier than the average of the eurozone primarily due to transition risk. The impact of transition risk fades away after 2035 under the “Orderly transition” and “Disorderly transition” scenarios, whereas in case of the “Hot house” scenario, there is no transition, at all.

This analysis shows that by 2050, under the worst climate scenario (Hot house), annual losses will rise by up to 16 basis points compared to the scenario of planned transition to a climate neutral economy.

v. Investment Risk Management Policy

In accordance with the requirements of Sustainable Finance Disclosure Regulation (SFDR), OTP Group has developed an investment risk management policy for all group members that provide portfolio management and investment advisory services. Based on that, both DSK Bank and its subsidiary DSK Asset Management have fulfilled the requirements and have applied a policy on integration of sustainability risks in the investment decision-making and investment advice processes, as part of the overall risk management framework. In order to measure and assess sustainability risks, DSK Bank uses ESG ratings and data provided by an external data provider, as well as publicly available information. When assessing the sustainability risks on financial instruments and portfolios, the Bank uses three sustainability risk categories - Low, Medium and High, with the following interpretation:

- a) Low: This category reflects good or excellent ESG performance and high level of transparency in the public disclosure of ESG data. These investments have minimal or low environmental and social risks and impacts.
- b) Medium: Reflects satisfactory ESG performance and moderate transparency in public disclosure of ESG data. These investments have limited environmental and social risks and impacts that can be easily prevented or mitigated through appropriate action plans and measures.
- c) High: Reflects poor ESG performance and insufficient transparency in the public disclosure of ESG data. These investments require a more complex risk assessment.

The statement on the integration of sustainability risks and the adverse effects of investment decisions on sustainability factors (PAIs) is available on the website of DSK Bank, resp. of DSK Asset Management.

C. DSK Bank Climate and Environment-related KPIs

i. Energy consumption and greenhouse gas (GHG) emissions

As part of our role in the broader journey to a sustainable economy, OTP Group has set ambitious goals in terms of its operations, including the reduction of its own emissions. The energy consumption data is collected from all subsidiaries, including DSK Bank, and available since 2016. Scope 1 and 2 own emissions related to systems that are within reasonable control of an entity, such as onsite and purchased energy, are mandatory part of OTP Group reporting process. The Group uses GRI Standard and indicators for writing its sustainability reports. The emission calculation methodology is based on the GHG Protocol.

DSK Bank has set specific targets for emissions from own operations, and namely:

- Reduce DSK Bank GHG emissions (Scope 1 and 2) by 15% compared to reported emissions for 2021, by the end of 2025;
- Reach net carbon neutrality in its own operations (Scope 1 and 2) by the end of 2025.

DSK Bank discloses separately its own GHG emissions from 2021 by providing relevant data for the entire DSK Bank Group. Below presented are the energy consumption and own GHG emission data in evolution for the last three years. Information on earlier periods is available in prior year declaration.

Figure 9: DSK Bank Group Energy Consumption, 2021-2023

| Energy consumption within the organisation (GJ) | | | |
|--|------------------|------------------|-----------------|
| | 2021 | 2022 | 2023 |
| Natural gas | 5441,00 | 3815,00 | 3479,00 |
| Car fuel mineral | 19508,78 | 18789,42 | 5047,92 |
| Total non-renewable fuel sources | 24949,78 | 22604,42 | 8526,92 |
| Car fuel biogen | 1158,41 | 1137,10 | 392,44 |
| Total renewable fuel sources | 1158,41 | 1137,10 | 392,44 |
| Electricity | 83091,60 | 78402,60 | 70909,69 |
| District heating | 10062,00 | 6665,00 | 4917,00 |
| Solar energy | | | 522,10 |
| Total indirect energy purchased | 93153,60 | 85067,60 | 76348,79 |
| Total energy consumption | 119261,80 | 108809,12 | 85268,15 |
| Total energy consumption per capita | 21,38 | 19,98 | 16,84 |

Figure 10: DSK Bank Group Scope 1 and Scope 2 CO₂e Emissions (t)

| Scope 1 and Scope 2 CO ₂ e emissions (t) | | | |
|---|-----------------|-----------------|-----------------|
| | 2021 | 2022 | 2023 |
| Direct (Scope 1) | 2091,38 | 2108,06 | 1259,10 |
| from motor vehicles mineral | 1459,60 | 1399,10 | 477,00 |
| from the use of natural gas | 305,78 | 211,96 | 193,29 |
| from air conditioning | 326,00 | 497,00 | 588,80 |
| Indirect (Scope 2) | | | |
| Indirect location-based | 9052,06 | 9117,25 | 10231,65 |
| from electricity | 8574,82 | 8801,13 | 9998,44 |
| from district heating | 477,24 | 316,12 | 233,21 |
| Indirect market-based | 9066,14 | 9117,25 | 10417,60 |
| from electricity | 8588,90 | 8801,13 | 10184,39 |
| from district heating | 477,24 | 316,12 | 233,21 |
| Total (Scope 1 + 2) location-based | 11143,45 | 11225,31 | 11490,75 |
| Total (Scope 1 + 2) market-based | 11157,52 | 11225,31 | 11676,70 |
| Biogenic CO ₂ e emissions | 83,00 | 81,00 | 35,83 |
| Per-capita location-based | 2,00 | 2,06 | 2,27 |
| Per capita market-based | 2,00 | 2,06 | 2,31 |

Notable changes in 2023 impacting our energy consumption and emissions metrics include:

- DSK Bank started to generate electricity through photovoltaic plants, installed on the roofs of three of our buildings in Sofia and Stara Zagora, saving approximately 88 tCO₂e so far.
- DSK Bank continued improvements in the installation of building management systems and temperature control in the working premises.
- The Bank conducted an energy efficiency audit for 14 buildings and launched a tender for another 10 buildings.
- Our fuel consumption also significantly decreased since Trans Security (incasso transport company) is no longer part of DSK Bank Group.
- Our fleet of hybrid motor vehicles increased to 18, with a goal to add 5 more electric or hybrid vehicles in 2024.
- The net increase in the emissions reported above is largely driven by an increase in the emissions conversion constant applied in the methodology.

The energy consumption and own emissions data are regularly monitored by the responsible units within the Bank and considered in the strategy setting and investment planning.

DSK Bank also started to assess the methodologies and data availability for reporting Scope 3 emissions as we strive to increase the accuracy, granularity, and scope of emissions reporting for our operations.

ii. Financed Emissions

In our commitment to support the transition to a climate-neutral economy, OTP Group has undertaken steps to define decarbonization targets in 2024. In line with these efforts DSK Bank has been developing a methodology to estimate the carbon footprint of our financed portfolio. As we strive to increase the transparency in our disclosures, we begin to disclose a summary of the absolute financed emissions for our lending and investment activities with non-financial corporates as of December 2023.

The methodology for estimating financed emissions follows the Partnership for Carbon Accounting Financials (PCAF) methodology, since OTP Group is a signatory of PCAF. Following the guidelines, we have estimated DSK Group’s financed emission in categories “Business loans and unlisted equity” and “Motor vehicle loans”. Financed emissions are calculated by multiplying an attribution factor (i.e. DSK Bank’s share) by the greenhouse gas (GHG) emissions of a borrower or asset, depending on the asset class. Clients’ actual GHG emissions are usually not available, therefore GHG emissions included in this report are estimated. The accuracy of estimation is indicated by the data quality score in line with PCAF prescriptions.

Financed emission figures are estimated using the PCAF database on a best effort basis. This implies that data availability and quality vary both in terms of regional and asset class coverage, that can result in inconsistent and/or uncertain estimations. We partly used information from third-party sources that we believe to be reliable, but which has not been independently verified by us. We do not represent that the information is accurate or complete. Therefore, estimated financed emission data are not comparable across banks, neither between years nor asset classes. The financed emission information contained in this report should not be construed as a characterization regarding the materiality or financial impact of that information.

Figure 11: DSK Bank estimated financed emissions as of December 2023

| Category | Exposure ³ (thousand EUR) | Financed emissions (kt CO2e) | Average of PCAF data quality score ⁴ |
|---|---|---------------------------------|---|
| Business loans and unlisted equity ¹ | 3 556 509 | 2 145 | 4 |
| Motor vehicle loans ² | 492 387 | 391 | 3.9 |
| Total | 4 048 896 | 2 536 | |

Notes:

1. Financed emissions for “Business loans and unlisted equity” represent total of Scope 1, Scope 2, and – in accordance with PCAF guidelines – Scope 3 for selected industry sectors (energy, mining, transportation, construction, buildings, materials and industrial activities), in thousand tons of CO2 equivalent.

2. Financed emissions for “Motor vehicle loans” represent total of Scope 1 and Scope 2, in thousand tons of CO2 equivalent.

3. Exposure represents the on-balance principal exposure for the in-scope loans / finance leasing activities with non-financial corporate clients. For “Business loans and unlisted equity”, our estimates cover 100% of the in-scope activities; for “Motor vehicle loans”, our estimates cover approx. 88% of the exposure based on the assets which are available in the PCAF database, i.e. passenger cars, vans, and heavy vehicles.

4. We have scored the data quality of our emissions data for “Business loans and unlisted equity” and “Motor vehicle loans” as an average of 4 and 3.9 respectively, based on the data quality scorecards in PCAF standards. Per this standard, on a scale of 1 to 5, data quality score 1 represents highest data quality (e.g., using company’s reported and verified emissions) and 5 represents lowest data quality (e.g., based on sector average proxies). As the availability of companies’ reported emissions data continues to be a challenge, the primary source we have used across asset classes is emissions factors provided by the PCAF database.

DSK Bank is continuously working on enhancing our data capabilities and methodology to enable us to provide more granular information on our financed emissions in the future.

iii. Green Asset Ratio

The EU Taxonomy is a classification system for environmentally sustainable economic activities. An economic activity to be defined as environmentally sustainable under the EU taxonomy, must meet the criteria specified in the taxonomy regulation and its delegated acts. The Taxonomy Regulation was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. The EU Taxonomy requires credit institutions to report taxonomy key performance indicators (KPIs), i.e., to what extent the credit institutions assets and services relate to sustainable economic activities.

For financial institutions (Article 1 2021/2178), the main KPI for on-balance sheet exposures is the Green Asset Ratio (GAR), which shows the proportion of exposures related to Taxonomy-aligned activities compared to the total covered assets of credit institutions. The GAR shall be based on exposures and balance sheets corresponding to the scope of financial institutions' prudential consolidation in accordance with Title II, Chapter 2, Section 2 of Regulation 575/2013/EU.

The below presented disclosures, as required under the EU Taxonomy, have been prepared at group-level by OTP Group Hungary, based on data provided by DSK Bank Group for the purposes of consolidation. Due to differences in the data provision for OTP Group consolidation purposes, there are differences in the presented amounts in these disclosures and those presented in the integrated report for DSK Bank Group.

As of 31 December 2023, we disclose the following information related to the Green Asset Ratio:

Figure 12: Template 0 Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

| | | Total environmentally sustainable assets (Turnover KPI-based) | Total environmentally sustainable assets (CapEx KPI-based) | KPI - Turnover KPI - CapEx | % coverage over total assets ¹ | % of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V) ² | % of assets excluded from the denominator of the GAR (Article 7 (1) and Section 1.2.4 of Annex V) ³ | |
|------------------------|--------------------------------------|---|--|----------------------------|---|---|---|--|
| Main KPI | Green asset ratio (GAR) stock | 0 | 0 | 0,00% | 0,00% | 75,50% | 28,16% | 24,50% |
| | | Total environmentally sustainable activities (Turnover KPI-based) | Total environmentally sustainable activities (CapEx KPI-based) | KPI | KPI | % coverage over total assets ⁴ | % of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V) ⁵ | % of assets excluded from the denominator of the GAR (Article 7 (1) and Section 1.2.4 of Annex V) ⁶ |
| Additional KPIs | <i>GAR (flow)</i> | 0 | 0 | 0,00% | 0,00% | 68,17% | 14,79% | 10,25% |
| | <i>Trading book*</i> | | | | | | | |
| | <i>Financial guarantees</i> | 0 | 0 | 0,00% | 0,00% | | | |
| | <i>Assets under management</i> | 0 | 0 | 0,00% | 0,00% | | | |
| | <i>Fees and commissions income*</i> | | | | | | | |

Notes:

- 1 percentage of all assets covered in the numerator and denominator (total GAR assets) for the calculation of GAR compared to the Bank's total assets
 - 2 percentage of all assets excluded from the numerator and covered in the denominator for the calculation of GAR compared to the Bank's total assets
 - 3 percentage of all assets excluded from the calculation of GAR compared to the Bank's total assets
 - 4 percentage of newly recognized assets in the reporting period covered in the numerator and denominator (total GAR assets) for the calculation of GAR compared to the Bank's total assets
 - 5 percentage of newly recognized assets in the reporting period excluded from the numerator and covered in the denominator for the calculation of GAR compared to the Bank's total assets
 - 6 percentage of newly recognized assets in the reporting period excluded from the calculation of GAR compared to the Bank's total assets
- * Fees and Commissions and Trading Book KPIs shall only apply starting 2026. SMEs' inclusion in these KPI will only apply subject to a positive result of an impact assessment.

In calculating the green asset ratio, the Bank considered the following:

- The Bank has followed guidance provided in the frequently asked questions (FAQs) on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets published on 21 December 2023 by the European Commission.
- For exposures to financial undertakings, based on our understanding of the guidance, the Bank is not required to report the

share of Taxonomy-aligned economic activity in 2024 (for year 2023). This is because financial institutions will only publish their GAR indicators in 2024 (for year 2023) and, therefore, the data are not available for financial undertakings to include in their 2024 reports.

- For exposures to non-financial corporations, for 2023 the Bank considered available information on Taxonomy-eligibility- and Taxonomy-alignment-related disclosures by clients subject to the Non-Financial Reporting Directive (NFRD). For the NFRD screening, due to data challenges, the capabilities for identification and assessment are still narrow. The Bank's plans include improvements towards the ability to identify and assess NFRD obliged entities, as well as integration of the necessary data into the Bank's IT systems.
- For retail exposures, the Bank considered loans granted to households for the acquisition and ownership of residential real estate, collateralised by residential real estate or for the renovation of real estate, as well as retail motor vehicle finance (purchase, lease or operational lease) for vehicles in categories M1, N1, and L. In case of such retail exposures (mortgages and motor vehicle loans), according to the European Commission's interpretation published in December 2023, credit institutions should obtain adequate documentary evidence showing that all technical screening criteria specified under the corresponding economic activity in the respective Delegated Acts are met. Due to challenges with data unavailability, the Bank is unable to carry out such an assessment and discloses zero environmentally sustainable assets for this year's report.

Based on the above considerations, DSK Bank discloses zero for environmentally sustainable assets and green asset ratio for 2023.

Compliance with EU Taxonomy and its Delegated Acts is of key importance for the Bank. We make constant efforts to improve the data availability and assessment against the Taxonomy criteria with the goal to continuously enhance the contents of our KPI disclosures related to climate and environmental risk. We also recognize our key role in financing the transition to a more sustainable economy and we are committed to supporting our clients, as described earlier under our Responsible Service Provider strategic pillar.

For additional disclosures required under the EU Taxonomy, please refer to the consolidated non-financial declaration for DSK Bank Group.

2. Responsible Employer

Bank in its capacity of an employer

The strengthening of DSK Bank's employer brand in 2023 was the main focus, and efforts were made for a new format of the employer offer EVP, focused on 4 main elements: 1. I have an interesting job, 2. I develop in the best bank, 3. I work in an excellent environment 4. My remuneration is based on my contribution. At the same time, the Bank continued with campaigns which clearly position what the employer offers (EVP) as employee value and with the slogan "Everyone is looking for employees, we are looking for people". Separate campaigns focused on IT roles in the Bank were awarded for effectiveness and brought extremely good results in the recognition of DSK Bank's employer brand.

Another special focus was on the Bank offering multiple career paths and opportunities, transforming itself to collaborative mixed teams that work flexibly towards a common goal. Within the campaign vision, comprehensive initiatives and visualizations with DSK Bank employees are included, because we believe that employees are the best factor for recommending the employer. The Bank is also a regular participant in various career forums, which are another connection of the institution with young talents and established professionals. Such an opportunity is the New Start program for the most popular position - customer service employee in the branch network, allowing mobility and a clear training program for new colleagues, the internship program and much more.

A lot of attention was given to internal communities within the organization and a Community of Change Ambassadors was created and developed to facilitate the achievement of a practice of open and direct communication at all levels, through colleagues to be another communication network.

In 2023, the development of training at DSK Bank was in several main directions:

1. The unification of thematic trainings under the umbrella of several academies:

The Digital Academy - digital training for new and current employees remained the focus. More than 100 employees were trained, who acquired, strengthened and expanded their knowledge and skills in the Data/Power BI field.

A corporate academy in which employees from the corporate segment participated in a series of trainings, gathered in specific courses and modules, aimed at developing and enriching the qualities and skills for serving corporate customers.

The Leadership Academy, supporting B-2 and B-1 level managers; 3 more groups with managers successfully completed.

Leadership + Academy - was created specifically for the managers of the various markets and included modules building on the Leadership Academy.

2. The creation of communities to be a conduit for transformation and new corporate values.

Internal Colleague Trainers who train their colleagues in a range of technical and soft skills training.

The ladies of DSK - a community consisting of 27 ladies who are leaders in various areas in the Bank and actively participate in the social life of the Bank.

3. With the transformation and the change of the corporate culture, the form of some internal initiatives was also changed.

The Welcome seminar, designed to acquaint new employees with the Bank's corporate values.

Team meetings have become a way to share information about the organization's strategy and direction, as well as a powerful motivational tool for teams.

Ethics Code and Anti-Corruption Policy

DSK Bank as part of OTP Group is committed to the fight against corruption and states zero tolerance to any kinds of bribery. The Bank has adopted a Policy for corruption prevention, where the principles of anti-corruption activity are defined, as well as the main fields with risk of corruption.

In the course of and in connection with the Bank's activities, all staff members and any other contractual partners of the Bank are strictly prohibited from performing any act of corruption and from participating or being involved in corruption. The Bank consistently and resolutely stands up against corruption. In case of a violation of the Policy by any person, the Bank shall take all steps necessary to avert potential negative consequences and to avoid similar events in the future. The Bank ensures the full enforcement of all Bulgarian, European Union and international anti-corruption regulations, and requires all of its staff members and contractual partners to comply with such regulations.

In addition, the Ethics Code of the institutions defines the clear principles and requirements for the employees and the partners of the Bank, as well as its affiliated companies, in relation to the adherence to the ethical norms at work. The main emphasis of the Ethics Code includes – the right of the employees to participate in the political or public life, ensuring safe and healthy occupational environment, promotion of mutual respect, prohibition for discrimination and abuse, integrity in business relations, zero tolerance to corruption and attempts for influence, limitations for offering and accepting gifts above the specified value. In case of doubt or possible violations of the norms of the Ethics Code and the Policy, the employees are offered an option to report it, including anonymously, to Regulatory Compliance Directorate, which will undertake the measures necessary as per the internal rules.

The Ethics Code of DSK Bank and the Policy for corruption prevention are publicly accessible on the Bank official website.

3. Responsible Social Actor - Corporate Social Responsibility

Protection of natural resources

The purpose of DSK Bank is to mitigate the impact on the environment. For years now, the Bank fulfils the policy for no-waste banking administration, which main goal is protection of environment. In practice this includes collection of all used toners and inkjet cartridges of the printing devices in all Bank branches and their recycling. The Bank applies also a policy of responsible paper consumption by optimizing the printing activities through migration of transactions to the electronic channels, double-sided printing,

reducing the number of pages of the contract general terms and conditions for the products.

For several years the Bank has created organization for voluntary collection by the employees of plastic caps and their disposal for recycling. This activity unites the care for the nature and the support for noble causes – the plastic caps are delivered for recycling at the designated points and the amount collected is spent for different charity initiatives.

At the end of 2021, DSK Bank joined the global Mastercard Wildlife Impact Card program for the protection of the planet's biodiversity. Thanks to the efforts of the Bank and Mastercard, Bulgaria becomes the first European market to join the Program. Made of 85% recycled and recyclable materials, the innovative Wildlife Impact cards support the conservation of over 2000 critically endangered species and the reduction of harmful carbon emissions by introducing sustainable banking products.

For a second consecutive year, in 2023 DSK Bank and Mastercard financially supported the global Conservation International organization to help conserve and restore wildlife habitats. By 2030, this project will cover priority areas equal to 40 million hectares of land and 4.5 million square kilometers of water areas worldwide.

As part of the Bank's local commitment to protecting global biodiversity, we have focused our efforts on the topic of environmental education for children. Together with Mastercard and Sofia Zoo, we created the interactive game "Mission Zoo Detectives". Available via smartphone, the game inspires parents and their children to take a fascinating and engaging walk along the routes of the zoo to learn more about the endangered species that live there.

Further, we managed to draw attention to the aquatic world and the hawksbill turtle, which was the face of the campaign this year. Throughout the month of December, a festive decoration in the heart of Sofia delighted passers-by and visitors, and in a series of events we presented the underwater world, the global dangers to oceans, rivers and seas, and the creative uses of marine life. As a result of the campaign 60,184 bank cards were issued.

Charity events with the participation of the employees

In 2023, DSK Bank employees took part in various events combining running, cycling and charity. In April, over 40 colleagues took part in this year's charity Business Run, organized by Begach Running Club. Traditionally, the organizers donate 30% of the entry fees for different social causes.

In September 2023, for the second year in a row, our employees participated in Sofia Bike Relay. The event was charitable and 30% of the fees were donated to the "Social and Emotional Learning through Sport" project, which aims to integrate social and emotional skills into sports classes for students from grades 1 to 12.

DSK Bank's women community took part in one of the largest charity sports event in Europe - Race for the Cure, in support of women's health. LaDySK also took part in one of the campaigns, organized by "Teddy Bear" Foundation, and provided warm winter jackets to 35 children from the village of Rakitovo.

In addition, more than 60 colleagues from our offices in Varna, together with their relatives, planted trees in the Botanical Garden in the city of Balchik. To support DSK Bank's mission for higher ecological commitment and cleaner environment, they planted 30 cypress trees.

In November 2023, together with "Club 200", we took another step towards our greener and more sustainable future via their tree planting initiative. In the name of ecology and our common responsibility, we worked together to plant dozens of oak trees in the region of Sofia.

Support for cultural projects and town development projects

In 2023, DSK Bank continued contribution to the development of local projects for culture and urban development. Together with the Regional Fund for Urban Development, DSK Bank co-financed several cultural infrastructure projects in Bulgaria, including the

Summer Theater in Shumen, the Vidin Synagogue and the “Renaissance and Constituent Assembly” Museum in Veliko Turnovo.

In October 2023, the fully renovated Summer Theater in Shumen resumed operation, a project launched in 2022. Within the project, a new tribune with 5 sectors for spectators and a capacity of 900 seats was built, all approaches, commercial and service premises, and surrounding space were restored.

This year, the project "Restoration and adaptation of the Vidin Synagogue into Jules Paskin Cultural Center" was also successfully completed. Its implementation was carried out through combined financial support - a grant and a financial instrument provided by DSK Bank and the Regional Fund for Urban Development. As part of the investment, construction and conservation activities were carried out on the main building of the Synagogue, the surrounding space was improved, and an information center was built. Now Jules Paskin Cultural Center has a hall for 180 people, suitable for hosting various events. The restoration of the emblematic Synagogue is part of the strategic initiative of Vidin Municipality to create a historical tourist complex, including the Synagogue, Baba Vida Fortress, the Cross Barracks, etc. In recognition of the efforts made, Jules Paskin Cultural Center was among the nominees at the annual "Building of the Year" awards, organized by CITY Media Group, under the patronage of the Ministry of Regional Development and Public Works. The cultural monument was awarded the special prize in the "Social infrastructure - culture" category.

At the end of the year, an official ceremony was held to mark the completion of the project of Veliko Tarnovo Municipality - Reconstruction and renovation of the "Renaissance and Constituent Assembly" Museum. The museum is an important cultural and historical place, which after the project end will have a renewed museum space and a modern vision of the exhibition areas. The implemented energy efficiency measures provide favorable conditions for reducing carbon emissions in the atmosphere and preserving energy resources, as well as for creating comfort for the visitors and the employees of the museum.

In 2023, DSK Bank continued its own socially responsible project for the improvement of the urban environment "City as its people". This is the first year in which the project went outside the capital of Bulgaria and was implemented in the largest seaside city – Varna. As the focus of our project in 2023 was related to children’s road safety, together with the artists from Kalkan Graffiti Agency, we created a colorful and beautiful space in the center of the Sea Garden. There, all children from Varna can learn the traffic rules in an interesting and fun way, while riding their bike, scooter, etc. DSK Bank also prepared a special digital template of the terrain, which is uploaded on the Bank's corporate social responsibility platform - "DSK Bank Helps". The technical sketch of the terrain can be downloaded and used by any school or kindergarten that wants to transform a dedicated space to help them demonstrate the road safety rules in a practical and interesting way.

Support for other social projects

DSK Bank continues its support to "Bcause" Foundation its activities, dedicated to developing donation culture and policies in the field of donations and social investments, etc. In 2023, the Bank supported once again "Bcause" in its campaign "8 women causes for March 8", that supports 8 organizations that work with women and their children who have suffered domestic violence or fight for the prevention of this problem.

Financial education and innovations

In 2023 DSK Bank continued its educational initiative "Calm on the Internet", aiming to present in a simple and understandable way the main highlights of safe online banking and Internet browsing.

In addition, as part of the European Money Week 2023 DSK Bank started a new educational initiative, related to financial literacy amongst young people. Partnering the "Artucus" Foundation, DSK Bank organized a series of interactive performances in schools in six cities in Bulgaria. More than 1000 students attended the theatrical show "The money – past and future", which presented the evolution of money in a curious and engaging way and tested their financial knowledge through different interactive games and quizzes.

Early children development

During the year DSK Bank continued its successful partnership with SOS Children's Villages Bulgaria – social development organization, which aims to guarantee that every child has family and lives in an environment of love, respect, and security. The partnership dates back to 2011 when the Bank committed to taking care of two SOS families. Our corporate donation and the donations from customers and employees, which come through ATMs and online banking, manage to secure safe environment for the children, part of the organization's programs. The opportunity to donate our time, attention, and knowledge brings us even greater joy.

In 2023, over BGN 730 thousand in the form of donations were accumulated through the different banking channels.

In addition, to support the social enterprise of SOS Children's Villages, we organized a charity Christmas bazaar in two of the Bank's central offices in Sofia. Our colleagues had the opportunity to purchase various items made by the social enterprise and within the campaign we collected over 4,000 BGN.

VII. AWARDS

In 2023, DSK Bank won a number of awards.

At the beginning of the year, the Bank and its employees received a Golden award "Responsible company – responsible employees" by "Beause" Foundation for our active participation in various charity initiatives.

For the Bank's innovative training programs, our HR team was awarded the "Education Innovation" award at b2b media Employer Branding Awards 2023.

For the 7th year in a row DSK Bank was recognized as "Most Generous and Significant Corporate Partner" by SOS Children's Villages Bulgaria.

In May 2023, we won two awards from the prestigious IAB MIXX Awards 2023. Our "Wild animals are at stake" campaign, in cooperation with Mastercard and dedicated to the cause of preservation of the planet's biodiversity, got second prize in the "Brand Purpose" category. The third place in "Digital PR" was awarded to the CSR program "City as its people", with which we transformed the basketball playground in Lozenetz neighbourhood in Sofia into the new vibrant place in the capital.

DSK Bank was also awarded at the PR Priz 2023 ceremony and BAPRA Bright Awards. At the BDVO' PR Priz 2023 we won three awards – for the "Wild animals are at stake" campaign in the categories "Product / Service communication campaign" and "Campaign for sustainable development / CSR", well as for the "City as its people" program in "Digital communications". A week earlier the "Wild animals are at stake" project received a Bronz award at BAPRA Bright Awards in the category "ESG communication campaign or project" and our Green Carpet Ceremony was awarded in the "Internal communications" category.

In the end of May, "National Network for Children" awarded DSK Bank with its special certificate "Child Friendly Company" for our long-standing efforts to support the children and their parents.

Our "Project Management" team was in the spotlight at the professional PM Awards 2023 with its four nominations, while our colleague Svilena Georgieva, Junior Project Manager, was recognized as "Young PM Professional of the Year".

Within the Festival of the Bulgarian Association of Communication Agencies, DSK Bank and our creative agency Noble Graphics won a Silver for the campaign to attract IT personnel "Hide the Pain Harold" and a Bronze for the advertising campaign for dskhome.bg.

In 2023, DSK Bank once again was the big winner at "Bank of the Year" Awards Ceremony, organized by Bank of the Year Association. The award was presented to our management for the Bank's best comprehensive performance in terms of market share, efficiency and development dynamics. In addition to the "Bank of the Year 2022" award, we were also recognized in the "Market share" category.

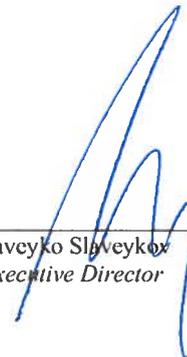
In June, DSK Bank was awarded by "24 Chasa" with the Business Honoris Causa award in the "Environmental Protection" category for our innovative Wildlife Impact debit card.

Two funds managed by "DSK Asset Management" took second and third place in the annual ranking of Investor.bg - "DSK Global Defensive Companies" and "DSK Dynamics", respectively, in the categories "Funds in shares - global" and "Commingled Balanced Funds". Four other funds - "DSK Standard", "DSK Balance", "DSK Global Companies" and "DSK Conservative Fund" were ranked fourth in their respective categories.

At the end of 2023, DSK Bank triumphed at the Effie Bulgaria awards ceremony with four awards - gold in the "Corporate Communications" category, bronze in the "Small Budget" category, as well as awards for "Most effective advertiser" and "Most effective brand".



Tamas Hák-Kovács
Chief Executive Director



Slaveyko Slaveykov
Executive Director

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Independent auditors' report To the shareholders of "DSK BANK" AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of "DSK Bank" AD (the Bank), which comprise the separate statement of financial position as at 31 December 2023, and the separate statement of profit and loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Impairment of loans and advances to customers</p> | |
| <p>The Bank's disclosures about impairment of loans and advances to customers are included in Note 6.4. "Credit risk" and Note 25 "Loans and advances to customers" to the separate financial statements.</p> | |
| <p>Loans and advances to customers represent a significant part (61%) of the total assets of the Bank as at 31 December 2023 with aggregate gross carrying amount of BGN 20 668 734 thousand and accumulated loss allowance of BGN 653 552 thousand. The Bank applies impairment model based on expected credit losses ("ECL") in accordance with the requirements of IFRS 9 "Financial Instruments".</p> <p>The application of such an impairment model in the determination of loss allowance for loans and advances to customers requires the Bank's Management to exercise a significant degree of judgment due to the increased level of complexity, specifically with respect to quantifying expected credit losses as disclosed in Note 6.4. The key inputs and areas of judgement in the assessment of expected credit losses are related to the development of quantitative and qualitative criteria for:</p> | <p><i>In this area, our audit procedures included, among others:</i></p> <ul style="list-style-type: none"> • We obtained an understanding of the Bank's impairment policy and process of determining the loss allowance for loans and advances to customers, including the models applied for calculation of ECL on collective and individual basis as well as whether the key assumptions and judgments used therein are in accordance with the requirements of IFRS 9. • We reviewed and assessed the adequacy and the consistency of application of the methodology and models used by the Bank to identify loan losses in accordance with IFRS 9 requirements. • We obtained understanding and assessed the internal controls at organisation level with respect to the development and application of the impairment models, including the model documentation and the update frequency and reasonableness of the parameters and macro indicators applied. • We obtained understanding and performed walk-through of the processes and the key internal controls over the monitoring and loan loss allowance estimation of loans to |

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- identification of significant increase of credit risk (SICR) criteria for staging of loans to clients (Stage 1: Exposures with no SICR, Stage 2: Exposures with SICR but no objective evidence for impairment and Stage 3: Exposures with objective evidence for impairment);
- determining the probability of default/loss (PD/PL), the loss given default or loss (LGD/LGL) and the exposure at default or loss (EAD);
- imputing forward looking information (FLI) of macro-economic factors considering multiple scenarios in ECL estimation.

A higher degree of estimation uncertainty is inherent in calculating ECLs for loans and advances to customers in Stages 1 and 2, assessed for impairment collectively in view of the Bank's availability of sufficient and adequate historical data from internal and external sources for back testing and calibrating the PD/PL and LGD/LGL estimates in the impairment model. Further to this significant management judgment is also required to be applied by Management in determining ECLs for loans and advances to customers which are assessed for impairment individually depending on the customer's risk category and the credit product used, ranges of possible scenarios based on their outcomes for timing and amount of cash flows from future collections, including from the sale of respective collaterals.

In 2023 due to the social and economic consequences from the deteriorating macro-economic indicators for the determination of the ECL, the Bank has taken in consideration the significant uncertainties. The Bank has addressed the uncertainties via reassessing the assumptions used in the model macro-economic indicators that influence the

corporate and retail clients in accordance with the requirements of IFRS 9 focusing on additional monitoring procedures and the result from the measures applied by the Bank based on the specific consequences from the expected deterioration of the macro-economic indicators and on any changes as a result of the calibration of the methodology for calculation of ECL. We involved our internal IT specialists to assess and test the IT general controls over these processes.

- We assessed the design and tested the operating effectiveness of the controls over the monitoring and assessment for impairment of loans and advances from customers' processes.
- Involving our credit experts, we have performed independent calculation of the parameters applied in the loss allowance models and performed review of the calculation logic for compliance with Bank's impairment calculation models. For a sample of loans from different risk categories we have recalculated the amount of impairment based on the relevant input data.
- Involving our credit experts, we analysed and assessed the adequacy of management judgments in relation to probability of default/ probability of loss (PD/PL) and the estimated amount of loss given default/ loss given loss (LGD/LGL) in the context of the specifics of the Bank's loan portfolio and the availability of the internal historical and forward-looking information for parameters development. Further, we assessed for reasonableness the PD/PL and LGD/LGL calculations by examining support for the key assumptions used and data sources, including for consideration of the available historic

determination of probability of default/loss (PD/PL), the scenarios used in calculation of the ECL and enhancing its credit risk monitoring procedures to distinguish the cases/indications that are related to long-term financial difficulties of the borrowers from those that represent temporary liquidity difficulties.

Due to the significance of the loans and advances to customers as an item in the Bank's separate financial statements, and the complexity of the specific models and calculations, the large number of significant judgments and high inherent estimation uncertainty involved in the impairment model under IFRS 9, we have considered this matter a key audit matter.

information on the impacts stemming from the deteriorated macro-economic indicators.

- We performed tests of details and analyses, based on a sample of loans and advances to customers, for which the Bank has not identified objective evidence of impairment, in order to assess their adequate classification in the respective risk category (stage) by the Bank.
- For a risk-based sample of loans and advances from customers that are subject to individual impairment assessment by the Bank and focusing on those with the most significant potential impact on the separate financial statements (phase 3), we specifically assessed the Bank's assumptions and judgments on the classification of these based on the criteria defined by the Bank and the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information, including the impact from the consequences of the deterioration of the macro-economic indicators.
- We performed subsequent events procedures focused on the development of the risk-based sample of loans and advances to customers, after the reporting period date, to assess the Bank's assumptions on the expected future cash flows.
- We assessed the relevance, completeness and adequacy of the disclosures for the impairment of loans and advances to customers under the requirements of IFRS 9.

Information Other than the Separate Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement and the non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

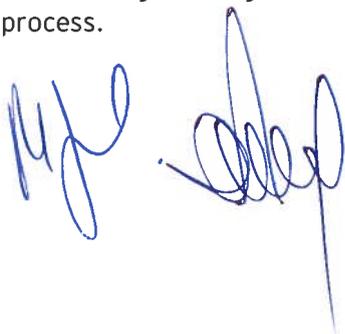
We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and presentation of the separate financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



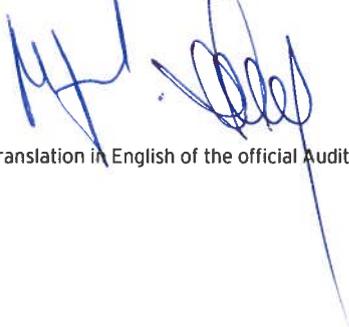
Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

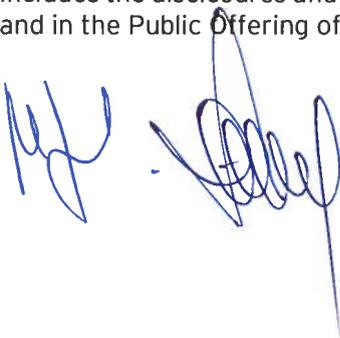
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Separate Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.



Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the management report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- c) The corporate governance statement referring to the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
- d) The non-financial declaration referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Reporting in accordance with Ordinance №58/2018 of Financial Supervision Commission

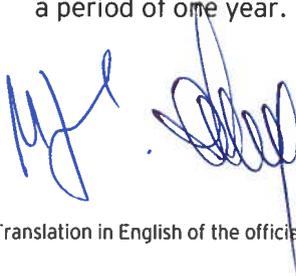
Statement in accordance with article 11 of Ordinance №58/2018 of FSC on the requirements for protection of the financial instruments and cash funds of clients, for management of goods and for providing or receipt of remuneration, commissions, other cash and non-cash benefits

On the basis of the performed audit procedures and the obtained understanding for the activity of the Bank and during the performance of our audit of the separate financial statements of the Bank, the created and applied organization in relation with the fiduciary assets is in accordance with the requirements of article 3-10 of Ordinance №58 of FSC and article 92-95 of Markets in Financial Instruments Act, on the activity of the Bank in its role as investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Ernst & Young Audit OOD and BDO AFA OOD were appointed as statutory auditors of the separate financial statements of "DSK Bank" AD (the Bank) for the year ended 31 December 2023 by the general meeting of shareholders held on 31 March 2023 for a period of one year.



Translation in English of the official Auditor's report issued in Bulgarian.

- The audit of the separate financial statements of the Bank for the year ended 31 December 2023 represents third total uninterrupted statutory audit engagement for that entity carried out by Ernst & Young Audit OOD and seventh total uninterrupted statutory audit engagement for that entity carried by BDO AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

Audit Firm Ernst & Young Audit OOD:

Audit Firm BDO AFA OOD:



Milka Natcheva-Ivanova
Legal Representative and
Registered Auditor in charge of the audit



Renny Iordanova
Legal Representative and
Registered Auditor in charge of the audit

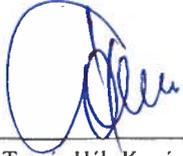
Sofia, Bulgaria
20 March 2024

Separate statement of profit or loss
For the year ended 31 December 2023

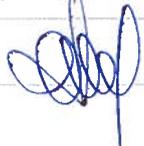
| <i>In thousands of BGN</i> | Note | 2023 | 2022 |
|---|-------------|-------------------------|-------------------------|
| Interest income | | 1 477 644 | 757 408 |
| Interest expense | | <u>(111 915)</u> | <u>(18 227)</u> |
| Net interest income | 9 | <u>1 365 729</u> | <u>739 181</u> |
| Fee and commission income | | 374 173 | 348 189 |
| Fee and commission expense | | <u>(52 625)</u> | <u>(44 760)</u> |
| Net fee and commission income | 10 | <u>321 548</u> | <u>303 429</u> |
| Net trading income | 11 | (291 062) | 34 912 |
| Net income from other financial instruments at FVTPL | 12 | 745 | (3 927) |
| Net gains from realisation of financial assets measured at amortised cost | 13 | 22 390 | 9 444 |
| Net gain/ (loss) from foreign exchange | | 110 876 | (25 549) |
| Other operating income, net | 14 | <u>50 424</u> | <u>95 955</u> |
| Operating income | | <u>1 580 650</u> | <u>1 153 445</u> |
| Impairment losses on financial assets, net | 15 | (159) | (112 378) |
| Impairment gain/ (loss) on non-financial assets, net | 16 | 588 | (3 047) |
| Net income from provisions | 35 | 10 134 | 2 614 |
| Personnel expenses | 17 | (227 049) | (182 391) |
| Depreciation and amortisation | 18 | (53 407) | (54 341) |
| Other expenses | 19 | (205 530) | (183 399) |
| Profit on disposal of subsidiaries | 43 | <u>3 847</u> | <u>-</u> |
| Profit before tax | | <u>1 109 074</u> | <u>620 503</u> |
| Income tax expense | 20 | <u>(102 922)</u> | <u>(53 795)</u> |
| Profit for the year | | <u>1 006 152</u> | <u>566 708</u> |

The separate statement of profit or loss is to be read together with the Notes from 1 to 46 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 15 March 2024.

| | | |
|---|---|---|
|  |  |  |
| _____ Tamás Hák-Kovács <i>Chief Executive Director</i> | _____ Slaveyko Slaveykov <i>Executive Director</i> | _____ Lazarina Pencheva <i>Compiler</i> |

Separate financial statements on which we have issued audit report dated 20 March 2024

| | |
|---|--|
| Audit company „Ernst and Young Audit“ OOD | Audit company „BDO AFA“ OOD |
|  |  |

Separate statement of comprehensive income
For the year ended 31 December 2023

| | 2023 | 2022 |
|---|-----------------------------|---------------------------|
| <i>In thousands of BGN</i> | | |
| Profit for the year | 1 006 152 | 566 708 |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Movement in the investment revaluation reserve for debt instruments measured at fair value through other comprehensive income | 12 456 | (83 845) |
| Profit/ (loss) on revaluation of hedging instruments | 403 | (2 067) |
| Income tax related to OCI items that may be reclassified subsequently to profit or loss | <u>(3 772)</u> | <u>12 911</u> |
| Total items that may be reclassified subsequently to profit or loss | <u>9 087</u> | <u>(73 001)</u> |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | |
| Movement in revaluation reserve for equity instruments designated at fair value through other comprehensive income | 5 746 | (31) |
| Revaluation of land and buildings | (1 277) | (2 303) |
| Remeasurements of net defined benefit liability | (1 739) | 2 552 |
| Income tax related to OCI items that will not be reclassified subsequently to profit or loss | <u>(242)</u> | <u>258</u> |
| Total items that will not be reclassified subsequently to profit or loss | <u>2 488</u> | <u>476</u> |
| Other comprehensive income for the year, net of tax | <u>11 575</u> | <u>(72 525)</u> |
| Total comprehensive income | <u>1 017 727</u> | <u>494 183</u> |

The separate statement of comprehensive income is to be read together with the Notes from 1 to 46 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 15 March 2024.



 Tamás Hak-Kovács
 Chief Executive Director

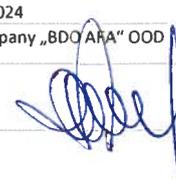


 Slaveyko Slaveykov
 Executive Director



 Lazarina Pencheva
 Compiler

Separate financial statements on which we have issued audit report dated 20 March 2024

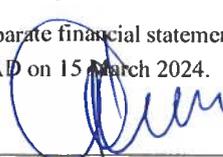
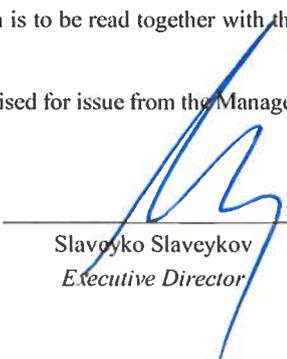
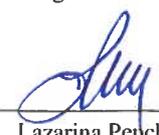
| | |
|---|--|
| Audit company „Ernst and Young Audit“ OOD | Audit company „BDO ARA“ OOD |
|  |  |

Separate statement of financial position

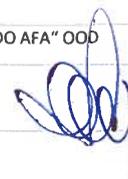
| <i>In thousands of BGN</i> | Note | 31-December- 2023 | 31-December- 2022 |
|---|-------------|------------------------------|------------------------------|
| Assets | | | |
| Cash and current accounts with the Central Bank and other banks | 21 | 5 809 874 | 5 789 538 |
| Financial assets held for trading | 22 | 2 669 | 6 652 |
| Derivative financial instruments | 22 | 52 503 | 108 819 |
| Investments at fair value through profit or loss | 26 | 3 653 | 2 908 |
| Non-current assets classified as held for sale | 23 | 6 356 | 3 500 |
| Investments at fair value through other comprehensive income | 26 | 932 032 | 1 195 102 |
| Loans and advances to banks | 24 | 3 030 766 | 2 629 263 |
| Loans and advances to customers | 25 | 20 015 182 | 16 702 998 |
| Investments at amortised cost | 26 | 2 148 765 | 1 611 753 |
| Current tax assets | | 3 179 | 11 274 |
| Investments in subsidiaries and associates | 42 | 77 532 | 123 408 |
| Goodwill | 27 | 77 372 | 77 372 |
| Right-of-use assets | 28 | 17 411 | 21 512 |
| Property, plant and equipment | 29 | 411 097 | 415 132 |
| Intangible assets | 30 | 76 895 | 66 104 |
| Other assets | 31 | 108 427 | 202 503 |
| Total assets | | <u>32 773 713</u> | <u>28 967 838</u> |
| Liabilities | | | |
| Deposits from banks | 32 | 66 215 | 60 186 |
| Derivative financial instruments | 22 | 64 382 | 95 927 |
| Deposits from customers | 33 | 26 407 135 | 23 969 970 |
| Loans from banks and financial institutions | 32 | 1 077 844 | 631 806 |
| Lease liabilities | 34 | 17 602 | 21 638 |
| Provisions | 35 | 67 740 | 76 689 |
| Deferred tax liabilities | 36 | 17 611 | 18 831 |
| Other liabilities | 37 | 145 234 | 163 477 |
| Subordinated debt | 38 | 450 090 | 225 431 |
| Total liabilities | | <u>28 313 853</u> | <u>25 263 955</u> |
| Shareholder's equity | | | |
| Share capital | 39 | 1 328 660 | 1 328 660 |
| Reserves | 39 | 2 109 015 | 1 782 851 |
| Retained earnings | | 1 022 185 | 592 372 |
| Total shareholder's equity | | <u>4 459 860</u> | <u>3 703 883</u> |
| Total liabilities and shareholder's equity | | <u>32 773 713</u> | <u>28 967 838</u> |

The separate statement of financial position is to be read together with the Notes from 1 to 46 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 15 March 2024.

| | | |
|--|--|---|
|  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Tamás Hák-Kovács Chief Executive Director</p> |  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Slavoyko Slaveykov Executive Director</p> |  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Lazarina Pencheva Compiler</p> |
|--|--|---|

Separate financial statements on which we have issued audit report dated 20 March 2024

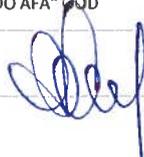
| | |
|---|---|
| Audit company „Ernst and Young Audit“ OOD | Audit company „BDO AFA“ OOD |
|  |  |

Separate statement of cash flows

For the year ended 31 December 2023

| <i>In thousands of BGN</i> | Note | 2023 | 2022 |
|--|-------------|--------------------|------------------|
| Cash flow from operating activities | | | |
| Profit before tax | | 1 109 074 | 620 503 |
| <i>Adjustments for:</i> | | | |
| Impairment losses on financial assets, net | 15 | 159 | 112 378 |
| Impairment (gain)/ loss on non-financial assets, net | 16 | (588) | 3 047 |
| Depreciation and amortization | 18 | 53 407 | 54 341 |
| Net losses/ (gains) from operations with investments | | 290 317 | (30 985) |
| Net (gains)/ losses from foreign exchange | | (110 876) | 25 549 |
| Net interest income | 9 | (1 365 729) | (739 181) |
| Dividend income | 14 | (36 840) | (79 539) |
| Net expense for provisions | 35 | (10 134) | (2 614) |
| Profit on disposal of subsidiaries | 43 | (3 847) | - |
| Other non cash changes | | 2 836 | (3 537) |
| Net cash flow used in operating activities before movements in operating assets and liabilities | | (72 221) | (40 038) |
| Movements in operating assets | | | |
| Decrease of securities held for trading | | 5 382 | 87 019 |
| Increase in loans and advances to banks | | (246 544) | (1 308 772) |
| Increase in loans and advances to customers | | (3 237 725) | (2 380 462) |
| Increase in other assets | | (241 461) | (71 310) |
| Movements in operating liabilities | | | |
| Increase/ (decrease) in deposits from banks | | 6 029 | (195 317) |
| Decrease in loans from banks and financial institutions | | (4 080) | (157 654) |
| Increase in deposits from customers | | 2 462 475 | 3 811 128 |
| (Decrease)/ increase in other liabilities | | (19 845) | 36 993 |
| Cash generated from operations | | (1 347 990) | (218 413) |
| Interest received | | 1 448 538 | 746 316 |
| Interest paid | | (110 662) | (13 422) |
| Income tax paid | | (100 334) | (40 166) |
| Net cash flow (used in)/ from operating activities | | (110 448) | 474 315 |

Separate financial statements on which we have issued audit report dated 20 March 2024

| | |
|---|---|
| Audit company „Ernst and Young Audit“ OOD | Audit company „BDO AFA“ OOD |
|  |  |

Separate statement of cash flows

For the year ended 31 December 2023
(continued)

| <i>In thousands of BGN</i> | Note | 2023 | 2022 |
|--|-------------|------------------|------------------|
| Cash flow from investing activities | | | |
| Acquisition of property, plant and equipment, and intangible assets | | (66 063) | (36 318) |
| Sales of property, plant and equipment, and intangible assets | | 8 287 | 10 230 |
| Purchase of securities | | (718 093) | (301 485) |
| Sale of securities | | 413 330 | 580 318 |
| Dividends received | | 36 840 | 76 285 |
| Sale of a subsidiary | 43 | 3 865 | - |
| Net cash flow (used in)/ from investing activities | | (321 834) | 329 030 |
| Cash flow from financing activities | | | |
| Loans and subordinated debt received | | 674 761 | 948 578 |
| Repayment of loans | | - | (97 792) |
| Dividends paid | | (249 919) | (393 467) |
| Repayment of the lease liabilities | 34 | (7 646) | (7 392) |
| Net cash flow from financing activities | | 417 196 | 449 927 |
| Net increase in cash and cash equivalents | | (15 086) | 1 253 272 |
| Effect of foreign exchange rate changes | | (127) | 1 571 |
| Cash and cash equivalents acquired on merger and liquidation of subsidiaries | 43 | 32 483 | - |
| Cash and cash equivalents at the beginning of the year | 41 | 5 792 808 | 4 537 965 |
| Cash and cash equivalents at the end of the year | 41 | 5 810 078 | 5 792 808 |

The separate statement of cash flows is to be read together with the Notes from 1 to 46 forming an integral part of the separate financial statements.

The separate financial statements are authorised for issue from the Management Board and signed on behalf of DSK Bank AD on 15 March 2024.

| | | |
|--|--|---|
|  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Tamás Hak-Kovács <i>Chief Executive Director</i></p> |  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Slaveyko Slaveykov <i>Executive Director</i></p> |  <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Lazarina Pencheva <i>Compiler</i></p> |
|--|--|---|

Separate financial statements on which we have issued audit report dated 20 March 2024

| | |
|--|--|
| Audit company „Ernst and Young Audit“ OOD  | Audit company „BDO AFA“ OOD  |
|--|--|

DSK Bank AD
*Separate Financial Statements
for 2023*

**Separate statement of changes in equity
For the year ended 31 December 2023**

In thousands of BGN

| | Share capital | Statutory and other reserves | Revaluation reserve-land and buildings | Revaluation reserve from financial assets | Defined benefit pension reserve | Share-based payment reserve | Retained earnings | Total |
|---|------------------|------------------------------|--|---|---------------------------------|-----------------------------|-------------------|------------------|
| Balance as of 1 January 2022 | 1 328 660 | 1 674 799 | 151 886 | 34 490 | (3 198) | 1 361 | 415 291 | 3 603 289 |
| Total comprehensive income | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 566 708 | 566 708 |
| Other comprehensive income | - | - | (2 072) | (73 005) | 2 552 | - | - | (72 525) |
| Total comprehensive income | - | - | (2 072) | (73 005) | 2 552 | - | 566 708 | 494 183 |
| Transfer of revaluation reserve from land and buildings, net of tax | - | - | (3 388) | - | - | - | 3 388 | - |
| Transfer of share-based payment reserve | - | - | - | - | - | (574) | 574 | - |
| Distribution of profit for reserves | - | - | - | - | - | - | (393 589) | (393 589) |
| Balance as of 31 December 2022 | 1 328 660 | 1 674 799 | 146 426 | (38 515) | (646) | 787 | 592 372 | 3 703 883 |
| Total comprehensive income | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 1 006 152 | 1 006 152 |
| Other comprehensive income | - | - | (1 149) | 14 225 | (1 501) | - | - | 11 575 |
| Total comprehensive income | - | - | (1 149) | 14 225 | (1 501) | - | 1 006 152 | 1 017 727 |
| Transfer of revaluation reserve from land and buildings, net of tax | - | - | (1 622) | - | - | - | 1 622 | - |
| Transfer of share-based payment reserve | - | - | - | - | - | (497) | 497 | - |
| Distribution of profit for reserves | - | 316 708 | - | - | - | - | (316 708) | - |
| Distribution of dividends | - | - | - | - | - | - | (250 000) | (250 000) |
| Merger of a subsidiary (Note 43) | - | - | - | - | - | - | (11 750) | (11 750) |
| Balance as of 31 December 2023 | 1 328 660 | 1 991 507 | 143 685 | (24 290) | (2 147) | 290 | 1 022 185 | 4 459 860 |

The separate statement of changes in equity is to be read together with the Notes from 1 to 46 forming an integral part of the separate financial statements.
The separate financial statements are authorized for issue from the Management Board and signed on behalf of DSK Bank AD on 15 March 2024.

Tanas Plak-Kovacs
Chief Executive Director

Slavko Slavevkov
Executive Director

Lazarina Pencheva
Compiler

Separate financial statements on which we have issued audit report dated 20 March 2024
Audit company „Ernst and Young Audit“ OOD

Audit company „BDO AFA“ OOD




1. Legal status and governance

DSK Bank AD (The "Bank" or DSK Bank) was incorporated on 2 March 1951 in Bulgaria as a centralised deposit accepting institution under the name "State Savings Bank". In 1998, when the Act of DSK transformation was passed, DSK Bank EAD (The "Bank") was transformed into a commercial bank. Later the Bank receives a full banking license to operate as a commercial bank issued by Bulgarian National Bank.

The Bank is a joint-stock company registered with the Trade Register of Republic of Bulgaria with UIC 121830616. The head office and registered address is 19 Moskovska str., Oborishte district, Sofia.

The majority shareholder of the Bank is OTP Bank Nyrt, registered in Republic of Hungary, holding 99.92% of the capital of DSK Bank AD as at 31 December 2023 and 31 December 2022.

The Bank has a two-tier system – Management Board and Supervisory Board.

As of 31 December 2023, those charged with governance are the Supervisory Board and the Audit Committee.

As of 31 December 2023, the members of the Supervisory Board are: László Bencsik – Chairman of the Supervisory Board; László Wolf, Violina Marinova, Gábor Kuncze, Anthony Radev, Attila Turkovits and Zsuzsanna Bereczki.

As of 31 December 2023 the Management of the Bank is represented by the Management Board composed by, namely: Tamás Hák-Kovács – Chairman of the Management Board and CEO; Slaveyko Slaveykov, Boyan Stefov, Dorothea Nikolova and Dimitar Dilov – Members of the Management Board and Executive Directors; Mihail Komitski – Member of the Management Board and Head of division.

According to the Law on Credit Institutions, the Bank statute regulations and its legal registration, the Bank is duly represented simultaneously by two Executive Directors.

An Audit Committee is functioning within the Bank and is in charge of monitoring the work of external auditors, internal audit performance, risk management, accounting activities and financial reporting. As of 31 December 2023, the Audit Committee is composed of: Chairman Dragomir Vuchev; members - Zoltan Tuboly and Daniela Petrova.

2. Basis of preparation

The Separate Financial Statements of the Bank are prepared on a historical cost basis, with the exception of derivative financial instruments, financial assets and liabilities held for trading, financial assets measured at fair value through other comprehensive income, which are measured at fair value and land and buildings, which are reported at revalued value.

The management has made an assessment of the ability of the Bank to continue to operate as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. The Bank continues to discharge its liabilities as they become due, maintain liquidity and meet capital requirements. Therefore, the financial statements continue to be prepared on the going concern basis.

2.1. Statement of compliance and representation

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) adopted by the Commission of European Union (EU).

The Bank presents its statement of financial position in order of liquidity of the assets and liabilities.

These financial statements have been prepared on an unconsolidated basis according to Accountancy Act and IFRS. The separate financial statements have been approved by the Management Board together with the consolidated financial statements of DSK Bank Group and should be treated as an integral part thereof.

2.2. Functional and presentation currency

These financial statements are presented in BGN, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.3. Comparative information

In these financial statements, the Bank presents comparative information for the previous year.

Whenever necessary, comparative data is reclassified (and recalculated), in order to achieve coherence and comparability according to changes in the presentation for the current year.

In these separate financial statements, comparative information has been amended, mostly in Notes 6.4.8.1, 6.4.10.3, 7.1, 19, 22.2 and 32, in order to achieve better presentation and disclosure.

2.4. Impact of the geopolitical situation on financial reporting

As a result of the complicated geopolitical situation following Russia's invasion of Ukraine on February 24, 2022, the war continues to impact global economic and financial markets. At the beginning of October 2023, another military conflict began on the geopolitical map in the Middle East, provoked by a terrorist attack by Hamas against Israel.

In addition to disruption of the usual supply chains, the main consequences of these wars include shortages and fluctuations in the prices of raw materials (particularly oil), exchange rate volatility, destruction and loss of assets, increased energy costs and others. General geopolitical uncertainty leads to economic uncertainty and affects all economic entities, regardless of whether they have direct exposures in the countries at war in the form of assets, markets, or partners. Political sanctions are also imposed, which prevent travel, commercial exchanges, international payments, access to and disposal of own cash and equivalents and other assets. Financial reporting challenges cover a range of topics, including the validity of the going concern assumption; forecasting future cash flows; fair value measurement; use of estimates and judgements; recoverability of assets and amount of expected credit losses; classification of assets and liabilities into current and non-current in the statement of financial position; change in the classification of financial assets as a result of a change in the business model; need for disclosures related to asset restrictions, e.g. blocked funds as a result of imposed sanctions; modification of leases; effectiveness of hedging relationships; restructuring etc.

The effects of the war on the elements of the financial statements, estimates, judgements, and risk management policies are disclosed in Notes 4.1, 4.4 and 6.4.

3. New standards and amendments to existing standards and interpretations

3.1. Initial application of new amendments to the existing standards and interpretations effective for the current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies, adopted by EU on 2 March 2022 (effective for annual periods beginning on or after 01 January 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: *Definition of Accounting Estimates*, adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023);
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17, adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 Income Taxes: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance contracts: *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*, adopted by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 12 Income taxes: *International Tax Reform – Pillar Two Model Rules*, adopted by the EU on 8 November 2023 (effective immediately, with disclosures required for annual periods beginning on or after 1 January 2023).

The amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. As a result of these amendments the Bank has re-assessed its accounting policies disclosure but the amendments have had no impact on the measurement, recognition and presentation of the items in the separate financial statements.

The amendments to IAS 12 have been developed in response to the Pillar Two Rules of the Organization for Economic Co-operation and Development (OECD) which propose introduction of additional domestic top-up taxes (“Pillar Two taxes”) in order to reach a minimum global income tax of 15%. The Bank has disclosed its exposure to Pillar Two income taxes in Note 20. Additionally, the Bank has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The adoption of other amendments to the existing standards has not led to any material changes in the Bank’s separate financial statements.

3.2. Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these separate financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- Amendments to IFRS 16 Leases: *Lease Liability in a Sale and Leaseback*, adopted by the EU on 20 November 2023 (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 1 Presentation of Financial Statements: *Classification of Liabilities as Current or Non-current*, adopted by the EU on 19 December 2023 (effective for annual periods beginning on or after 1 January 2024).

3.3. New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from those adopted by the IASB, except for the following new standards, amendments to the existing standards and new interpretations, which have not yet been adopted by EU as at the date of approval of these separate financial statements:

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: *Supplier Finance Arrangements* (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: *Lack of Exchangeability* (effective for annual periods beginning on or after 1 January 2025);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: *Sales or Contributions of Assets Between an Investor and its Associate or Joint Venture* (the effective date has been postponed for indefinite time);

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the separate financial statements of the Bank in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities, the principles of which have not been adopted by the EU, remains unregulated.

According to the Bank’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement would not significantly impact the separate financial statements, if applied as at the balance sheet date.

4. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

Areas which presume a higher level of subjective assessment and complexity or where presumptions and changes in accounting estimates are significant for the financial statement are as follows:

4.1. Impact of the war in Ukraine on estimates and judgements

As described in Note 2.4 above, as a result of the heightened uncertainty on a global scale associated with the war in Ukraine, developing reliable estimates and applying judgment has become even more challenging. ECL accounting has become particularly difficult in the current circumstances and requires significant judgment. The ECL model is forward-looking and is based on a probability-weighted approach. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions. During this period of greater economic uncertainty, it is very difficult to forecast future events and the macroeconomic inputs used in ECL modelling. Determining macroeconomic scenarios and assigning probabilities to these scenarios requires significant judgment. The Bank applies expert credit judgment to adjust modelled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit rating and modelling process. As a result of the war and the recent economic downturn, significant measurement uncertainty exists in determining ECLs, especially regarding key inputs used in the model.

4.2. Expected credit losses from financial assets

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of three stage model is implemented for IFRS purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit impairment or significant increase of credit risk lifetime expected losses will be recognized.

In addition, a new source of uncertainty and increased risk related to first line effects (directly affected clients), as well as second line effects (indirectly affected clients – for example suppliers or clients of directly affected clients of the Bank) emerged with the start of the war in Ukraine in February 2022 for the credit institutions. The supplies interrupted by the military conflict have led to a rise in prices of commodities in Europe, sharply increased prices of energy suppliers and added an inflation pressure over the European economies.

In order to reflect the possible and expected effects of this geopolitical crisis, the Group of OTP Bank has reviewed the macroeconomic forecasts and their probability (weights regarding estimates of expected credit allowances, respectively). The review led to valuation of expected higher probability of default, and higher expected loss of collectively impaired loan portfolio, respectively (increase with approx. 1.4%).

The estimate of the expected credit losses from government bonds at fair value through other comprehensive income and government bonds at amortised cost is based on a model which includes the credit rating and the probability of default of the respective country. The probability of default of the Russian Federation in the previous period has been increased to 100% resulting in significant increase in the expected credit losses of Russian securities held by the Bank and their reclassification in Stage 3. Additionally, during the current year the Bank has raised its estimate of the loss-given default (LGD) of the Russian Federation, keeping the probability of default at the level of 100%.

4.3. Fair value of financial instruments, not traded on active markets

In case when fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, these are defined through different measurement techniques using models. The basic data for these models is extracted from indicators observed where possible on financial markets; otherwise, assumptions are made for establishing of fair values. These assumptions take into consideration factors related to liquidity, volatility for long – term derivatives and discount rates, pre – term repayments and probabilities of default for asset – backed securities (Note 8). The past 2023 year was marked by the war between Russia and Ukraine. Inflation was a key topic. Central banks increased unprecedentedly the key interest rates, and they reached levels not seen in a decade. Central banks are not expected to increase key interest rates in 2024. Markets movement is a function of many market participants' expectations – what social and economic processes and trends will be at the heart of the future market and companies' performance. Inflation is expected to decrease gradually and the interest rates to reach stable levels.

4.4. Revaluation of land and buildings

The Bank applies the revaluation model to land and buildings using the services of licensed appraisers to perform the valuations (Note 29). The appraisers use appropriate valuation methods and techniques using observable market data, to the extent such data is readily available and accessible. When there are significant non-observable inputs in the valuation model, the fair value will be sensitive to any changes of those inputs.

Currently, the market does not suffer from structural imperfections related to increased demand or aggressive supply. Demand has been fueled by the steady improvement since 2010 in housing affordability, measured by the ratio of property prices to household incomes. The events of 2023 continued to have an impact on the real estate market in the country. The economic crisis after the pandemic, the subsequent energy crisis and inflation that was a supplement from the war in Ukraine marked the economic trends of the world, European and local markets. While in Europe there is stagnation and signs of expected stagnation and crisis in the real estate market supported by high inflation and rising interest rates on loans, in Bulgaria 2023 continued to be relatively positive in terms of real estate. Although investors raised property prices, they managed to meet potential buyers who, supported by the good conditions of the labor market and credit prices, continue to be interested in buying new properties.

As a result of the market analysis performed as of 31 December 2023, management has concluded that the carrying amounts of land and buildings are close to their fair values. Consequently, no new appraisal has been performed as at the end of the current reporting period.

4.5. Provisions for litigation settlements

For all open cases against the Bank, the management assesses the probability and the risks of negative outcome and charges provisions in cases when a higher than 50% probability of unfavourable outcome for the Bank is distinguished or in case of potential risks of increase in claims from Bank's customers concerning contract payments for products and services (Note 35).

4.6. Impairment of goodwill and intangible assets (customer base)

In order to determine the recoverable amount of goodwill and the customer base recognized in a business combination, the Bank uses models, incorporating future cash flows and a number of assumptions, including discount rates, customer churn rate, useful life of intangible assets, etc. For the future cash flows, the Bank uses the budgets approved by management which reflect current and expected market conditions. The geopolitical situation related to the war in Ukraine is unpredictable and raises significant uncertainty as to the reasonableness of judgements used in determining the recoverable amount of goodwill and intangible assets, as well as the eventual need for impairment.

4.7. Impact of the climate risk on estimates and judgements

Where appropriate, the Bank considers climate-related matters in its estimates and assumptions, which may increase their inherent level of uncertainty. This assessment includes a wide range of possible impacts on the Bank due to both physical risks and risks of transition to a net-zero economy, to which the Bank and its customers are exposed. These risks may also involve refinancing and liquidity risks for certain customers in high-risk sectors.

The items and considerations that may be most significantly impacted by climate-related matters are:

- Expected credit losses (ECL) - customers with exposure to climate risk may have a resultant deterioration in creditworthiness or underlying collateral received from them may decrease in value, and a consequential impact on ECL. Transition risks may result from government or institutional policy changes, with consequential credit quality deterioration in sectors or countries affected. The Bank has performed an analysis and identified the sectors in its corporate portfolio representing medium- or high transition risk. The results of the analysis are used for determining risk indicators, which are incorporated in credit assessment and monitoring of customers;
- Classification of sustainability-linked loans. For loans and bonds with sustainability-linked features, the Bank needs to determine whether the instrument passes the SPPI (solely payments of principal and interest) test. According to the Bank, such instruments have an insignificant share in its loan portfolio;
- Fair value measurement - the Bank has assumed that any climate change variables incorporated in fair value measurement are those that market participants would consider when pricing the asset or liability, in line with IFRS 13 Fair Value Measurement. Consequently, the Bank concluded that climate risk has been adequately reflected within the fair value of its assets and liabilities.

Currently, climate-related risks have no significant impact on measurement of assets and liabilities, Still, management is closely monitoring relevant changes and developments in climate-related regulations.

5. Summarised information about the accounting policy applied

5.1. Interest income and expenses recognition

Interest income and expenses reported in the Statement of Profit or Loss include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on securities at fair value through other comprehensive income calculated on an effective interest basis.

Interest income and expenses are recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate (EIR) is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discounts and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue on receivables with risk Stage 3 and purchased credit-impaired receivables including with delays in payments over 90 days on a collective assessment basis.

For these financial assets, the Bank recognizes interest on the basis of the net amortized cost of the receivables. For this purpose, a corrective adjustment is calculated for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the calculated interest on the EIR basis of the amortized cost of the asset less the loss allowance for expected credit losses.

Interest revenue on receivables with risk Stage 3 and purchased credit-impaired receivables including with delays in payments over 90 days on individual assessment basis with credit impairment based on unwinding when the receivable is expected to be covered by the contractual cash flows from collateral or other cash flows.

For these financial assets, the Bank recognizes interest on the basis of the discounted unwinding cash flows by accruing an adjustment for the difference between the contractually accrued interest on the basis of EIR on the gross value of the financial asset and the difference between the present values of the unwinding cash flows in the separate reporting periods discounted with the EIR. The adjustment is reported in the income statement as a decrease of interest income.

5.2. Foreign currency transactions

Upon initial recognition, each foreign currency transaction is reported in the functional currency (Bulgarian Lev) by applying the exchange rate at the date of the transaction to the amount of the foreign currency. Monetary assets and liabilities denominated in foreign currencies and stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange rate differences arising from translation are recognized in the statement of profit or loss. Non-monetary assets and liabilities initially denominated in a foreign currency are reported in the functional currency using the historical exchange rate at the date of the transaction.

The effects of exchange differences related to the settlement of foreign currency transactions or the reporting of foreign currency transactions at rates different from those for which they were initially recognized are included in the current profit or loss of their occurrence to the item "net gains / (losses) on trading".

5.3. Fees and commission

Fees and commission income, including account servicing fees, investment management fees, sales commission, guarantees, and letter of credit fees are recognised as the related services are performed.

Fees and commission expenses related mainly to transaction and service fees, which are expensed as the services are received.

Performance obligations and revenue recognition policies

| Fee type | Nature and timing of satisfaction of performance obligations, and the significant payment terms | Revenue recognition under IFRS |
|---|---|--|
| Fees and commissions related to payment transactions | <p>The Bank provides to its customers a variety of services, related to withdrawals and depositing funds into bank accounts, payment transactions in local and foreign currency, according to which different fees are applied.</p> <p>In the case of transaction – based fees (for example in the case of cash withdrawal either a POS/ATM payment fee or a fee for cash withdrawal in the Bank’s offices is charged, etc.) the fee is due immediately after the transaction takes place or once per month. The fee is usually defined in % of the transaction amount with a pre – defined fixed minimum amount.</p> <p>In all other cases of payment services, the fee is charged when the transaction takes place. These fees can be determined in fixed amount or in %.</p> <p>The Bank performs a regular pricing review of applicable fees and commissions.</p> | <p>Transaction-based fees are charged when the transaction takes place or monthly at the end of the month.</p> |

| Fee type | Nature and timing of satisfaction of performance obligations, and the significant payment terms | Revenue recognition under IFRS |
|---|---|---|
| Fees and commissions related to credit deals | The Bank provides a range of bank services on clients' accounts to both retail and companies against a service fee, as well as submits for the use of its customers different types of credit cards with respective fees applied. | Fees for ongoing services are charged on a monthly basis. |
| | Account management fees are typically related to bank account servicing, issuing credit cards, annual fees on credit cards and other fees on credit cards for usual bank account services. Annual card fees are fixed and depend on the type of bank card. | Fees on one – off services are charged at the moment of service delivery. |
| | The Bank regularly reviews applied fees. | |
| Fees and commissions on deposit accounts | The Bank offers a number of account management services for both retail and companies against a service fee as well as makes available for its clients different types of debit cards with respective fees applied. | Fees for current account management services of customers' accounts are charged monthly. |
| | Fees related to these services are account opening and closing fees, management fees, online banking, debit card issuing, monthly fees for debit card services and other fees for usual account services. | Fees on one – off services are charged at the moment of service delivery. |
| | Fees for current account management services are charged to the customer on a monthly basis. They are usually fixed to an amount depending on the package program or the category of the client. | |
| | Monthly and annual fees on bank cards are set in fixed amounts. They are differentiated according to the type of bank card. | |
| | Fees for occasional one – off services are charged when the client makes use of the service. These fees can be fixed or determined in %. | |
| | The Bank regularly reviews applied fees. | |
| Other fees and commissions | Fees reported in the "Other fees" category are fees for safekeeping of money or valuables in the safe boxes of the public treasury, issuing a bank certificate, issuing a bank reference, photocopies of documents, etc. | Fees for long – term services are charged in the respective period they are provided for. |
| | These fees concern long – term services provision (bank safekeeping) or one – off administrative services. | Fees for one – off services are charged when the service is provided. |

5.4. Net trading income

Net trading income comprises gains net from losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange rate differences. Net trading income includes foreign currency exchange rate differences on investment financial assets.

5.5. Government grants

Government grants are not recognised until there is a reasonable assurance that the Bank will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grants are intended to compensate.

Government grants whose primary condition is that the Bank should purchase, construct, or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the separate statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Bank with no future related costs are recognised in profit or loss in the period in which they become receivable.

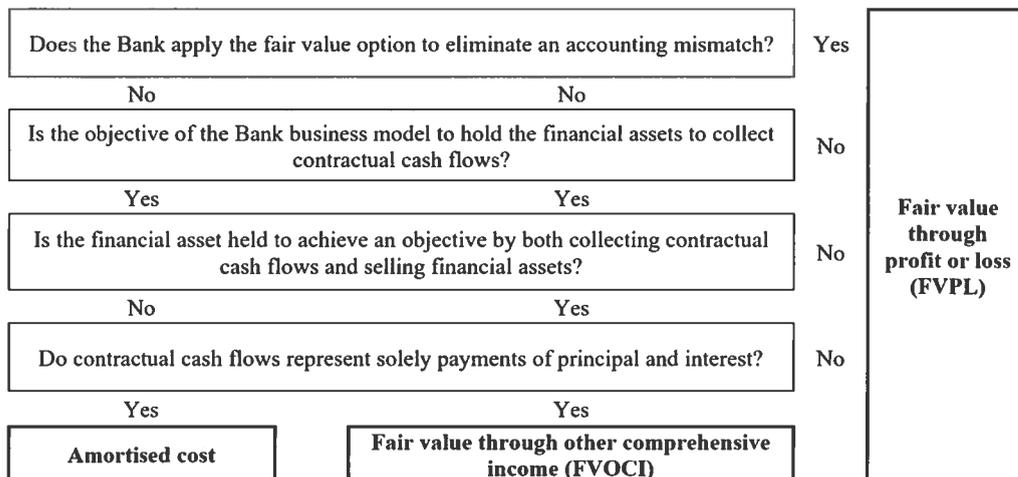
The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

5.6. Financial instruments

5.6.1. Classification

In accordance with the IFRS 9 Financial Instruments (IFRS 9), the Bank classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the following two conditions: the Bank business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The process for determining the classification and requirements for its application technology is illustrated by the following scheme:



5.6.2. Business model for financial assets management

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model does not depend on the intentions of the management with respect to a separate instrument.

The Bank can have more than one business model for managing its financial instruments. The Bank can hold one portfolio of investments that it manages in order to collect contractual cash flows and another portfolio of investments that it manages in order to sell to realize fair value changes.

Depending on the strategy and the risk profile, the Bank has identified the following business models for managing financial assets:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows (held to collect)
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (held to collect and sell)
- Business model that aims to realise cash flows through the sale of financial assets.

The Bank may have the same type of instrument in all three categories, depending on the asset management model.

5.6.3. Recognition

The Bank shall recognise a financial asset or a financial liability in its statement of financial position when the Bank becomes party to the contractual provisions of the instrument.

A regular way of purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

Regular way purchase or sale according to the terminology in Appendix A of IFRS 9 is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The settlement date is the date that an asset is delivered to or by the Bank. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

The change in fair value of assets measured at fair value, between the trade date and the settlement date, is recognized in profit or loss, or in other comprehensive income, as applicable, depending on the asset category under IFRS 9.

Loans and receivables from customers are recognized when the funds are transferred to the customers. Deposits received are recognized when the funds are transferred to the Bank.

Unconditional receivables and payables are recognised as assets or liabilities when the Bank becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.

Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. Further details of the Bank's policy are provided in 5.13 Loans and advances and 5.14 Receivables under factoring agreements.

Planned future transactions, no matter how likely, are not assets and liabilities because the Bank has not become a party to a contract.

5.6.4. Initial measurement

Except for trade receivables that do not contain a significant financing component and are measured at their transaction price within the scope of paragraph 5.1.3 of IFRS 9, at initial recognition, the Bank shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The Bank has reported its financial liabilities in all relevant items of the Statement of financial position, except for "Provisions" and "Deferred tax liabilities", as well as "Liabilities to personnel and management".

5.6.5. Subsequent measurement

Amortised cost measurement

The amortized cost (net amortized cost) at a certain date includes the cost of: outstanding principal, accrued interest receivables/payables, non-amortized discount, premium and fees participating as part of the exposure of the financial instrument upon acquisition and element in determining the EIR and the amount of the accumulated write-off for interest or credit impairment.

If the credit risk on the financial instrument improves, the criteria set by the Bank shall resume charging interest over subsequent periods based on the gross amortized cost of the financial asset.

The cumulative interest corrective is derecognized from the amortized cost and is recognized as interest income. Recognition of interest corrective as interest income is made after the receivable is fully repaid by the debtor or in forming of a negative amortized cost thereon.

Fair value measurement

The Bank measures fair values of financial instruments using hierarchy methods that reflect the significance of the inputs used in making the fair value measurements:

Level 1: Quoted market price (unadjusted) in an active market for identical assets or liabilities. Fair values of financial assets and financial liabilities which are traded on active markets with access to market information are based on the quoted market prices or the closing prices.

Level 2: Valuation techniques for financial instruments based on market data either direct (i.e. such as quoted prices) or indirect (i.e. inputs from the prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. The Bank measures the fair values using the valuation technique based on the net present value. The calculation of NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

Level 3: Valuation techniques using significant unobservable inputs for financial assets and liabilities.

The Bank recognizes transfer between the levels in the hierarchy of the fair values in the end of the reported period when the change is made.

The best evidence of the fair value at the initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data, or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure.

Fair value measurement through other comprehensive income

Gain or loss attributable to a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for gains or losses on impairment and foreign exchange gains or losses until the asset is derecognised or reclassified.

Upon derecognition of the financial asset, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Interest calculated using the effective interest method is recognized in profit or loss.

When assessing a financial asset at fair value through other comprehensive income, the amounts recognized in profit or loss are the same as those that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Gain or loss associated with investments in equity instruments measured at fair value in other comprehensive income is recognized in other comprehensive income, including foreign exchange gains or losses until the financial asset is derecognised or reclassified. Amounts recognized in other comprehensive income are not subsequently transferred to profit or loss. The Bank may transfer the accumulated profit or loss within equity. Dividends on these investments are recognized in profit or loss.

Fair value measurement through profit or loss

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in the statement of profit or loss unless: it is part of a hedging; it is an investment in an equity instrument the profits and losses from which are recognized in accordance with IFRS 9 paragraph 5.7.5; it is a financial liability designated as at fair value through profit or loss and the Bank should present changes in fair value resulting from a change in its own credit risk in other comprehensive income; or it is a financial asset measured at fair value through other comprehensive income.

5.6.6. *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset on a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank takes decision for full write-off of financial asset when it is: classified as “loss” and entirely impaired. Uncollectable are receivables that cannot be collected due to legal obstacles or the applicable collection methods are economically unjustified, the criteria for classification of the receivable as uncollectable are regulated in detail in internal rules and include, but are not limited to:

- Missing debtor and cases equated to lack of debtor (the borrower is deceased with no heirs, or heirs, up to the second row including, who have made a denial of heritage, as well as in case of legal entities which have been deleted from the commercial registers or in liquidation, bankruptcy and insolvency proceedings but no property is available to satisfy the claims of the Bank and there are no other liable persons, against whom an execution may be initiated);
- The contract for the credit risk, assumed by the Bank, cannot be found;
- The statute of limitation of the receivable has expired;
- Criteria based on an economic assessment of the collectability or practical impossibility for collection of the receivable (receivables for which the collection methods are economically unjustified, small amount, etc.);

If any of the criteria for uncollectable receivables under the rules exist, the receivable shall be classified as uncollectable, and the On-balance and Off-Balance sheet accounting shall be terminated. In specific cases it is possible a decision to be taken for Off-Balance accounting to be remained.

Write off from the On-balance sheet of receivables and posting Off-balance is performed when are not classified as uncollectable, but are not expected to be fully recovered, and in case of collateralized receivables it is substantiated that the collateral cannot be enforced, i.e. the liquidation cash flow thereof is 0.

Write off from the On-balance sheet is applied for receivables that are fully impaired for credit risk.

According to the assessment of the potential recovery of a receivable, the write off from the On-balance sheet of the receivable, following a write-off decision, may be realized as follows:

1. A full write-off from the On-balance sheet reporting - accounting operation, in which the total On-balance sheet exposure of the receivable is written off;
2. A partial write-off of the On-balance sheet reporting - accounting operation, whereby only part of the On-balance sheet exposure of the receivable is written off.

A partial write-off from the On-balance sheet reporting is performed under the following condition:

Based on analysis of the individual exposure, a statistical analysis of a portfolio of risk exposures or an analysis based on criteria approved by a competent authority, there is an expectation that part of the risk exposure shall not be collected (neither from the debtor's cash flow nor through enforcement proceedings in respect to the collateral).

The amount of the risk exposure, which is subject to a partial write-off, is defined as the difference between the book value of the gross balance sheet exposure and the maximum amount, which may be collected under the relevant risk exposure. Partial write-off can only be accounted for up to the maximum recovery. The maximum recovery is the maximum amount that can be collected for the relevant risk exposure defined as the recovery amount under the most optimistic scenario over a reasonable period of time (5-10 years).

Depending on the type of the exposure, the Bank applies the following three methods for setting of the amounts subject to a partial write-off:

1. Method of assessment and analysis based on statistical observations or criteria (applied to exposures of personal individuals for which there is no immovable property as collateral);
2. Method of individual assessment and analysis;
3. Individual assessment and analysis method, based on the criteria defined by a competent authority for loans included in a package.

The Bank derecognises financial liability when its contractual obligations are discharged or cancelled or expired.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the criteria for derecognition. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the service.

5.6.7. Offsetting

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

5.6.8. Impairment of financial assets

The Bank applies the impairment requirements to financial assets that are measured at amortised cost, to financial assets that are measured at fair value through other comprehensive income as well as commitments on loans and financial guarantee contracts falling within the scope of the Standard in accordance with IFRS 9 paragraph 5.2.2.

The Bank recognises a loss allowance for expected credit losses on all financial assets that are measured at amortised cost, at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract using the General approach of IFRS 9.

The assessment of credit risk is performed on a collective or individual basis for a group or sub-group of financial instruments.

When assessing credit risk, The Bank groups loans granted in stages depending on the level of the existing risk, as follows:

- ✓ Stage 1 - includes performing loans without a significant increase in credit risk after initial recognition. The impairment of these assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is less than one year;
- ✓ Stage 2 - includes assets with a significant increase in credit risk after initial recognition. In this case, the expected credit losses are calculated over the life of the asset;
- ✓ Stage 3 - includes assets, the substantial part of which overdue for more than 90 days and for which the probability to be repaid in full is considered by the Bank very low. The expected credit losses for these instruments are also calculated over their entire life.

- ✓ Purchased or originated credit-impaired (POCI) financial assets – these assets are credit-impaired on their initial recognition. With respect to them, The Bank recognizes cumulative changes in the expected credit losses over the entire life of the instrument subsequent to initial recognition.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event, ie when the counterparty has not made a payment that has become payable by contract (over 90 days);
- the Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession that the Bank would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event identifying evidence of credit impairment. Instead, the combined effect of several events may have caused financial assets to become credit impaired.

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets).

The Bank estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Bank uses the remaining contractual term of the financial instrument.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

When calculating the credit-adjusted effective interest rate, the Bank estimates the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are the Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

5.6.9. Reclassification

When, and only when, the Bank changes its business model for managing financial assets, the Bank reclassifies all affected financial assets measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

If the Bank reclassifies financial assets, it applies the reclassification prospectively from the reclassification date. The Bank does not restate previously recognised gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount (the amortised cost of the financial asset before adjusting for any loss allowance).

If the Bank reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Subsequent reclassification of financial liabilities is prohibited in accordance with IFRS 9.

5.6.10. Modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9 (applied by analogy the requirements for derecognition of financial liabilities), but results in a change in the net present value of the asset above a certain threshold, under which it is deemed immaterial (NPV changes by more than 1% as a result of the modification/renegotiation and this change is not related to a change in market prices), the Bank recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss, such as:

- The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets);
- The adjustment to the gross carrying amount is the difference between the present value of the modified cash flow discounted to the agreed EIR and the present value of the modified cash flow on the recalculated new EIR. This adjustment is reflected in a corrective account and a one-time effect on profit or loss and is amortized as interest income/expense over the remaining term of the modified financial asset.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset.

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

5.6.11. Purchased credit-impaired financial assets

Purchased credit-impaired financial asset is an asset which is credit-impaired on initial recognition.

The Bank classifies the purchased credit-impaired financial assets as measured at amortized cost only if the following conditions are met simultaneously:

- The financial asset is held by the Bank within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Amortised cost is the amount at which the credit-impaired financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation between that initial amount and the maturity amount, which for purchased credit-impaired financial assets is calculated by applying the credit-adjusted effective interest rate.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

When calculating the credit-adjusted effective interest rate, the Bank shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are the incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

The Bank only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Bank shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Bank recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

5.7. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances on hand and cash deposited with the Central Bank, nostro accounts, and short-term highly liquid receivables from banks with original maturity of up to three months, gross of impairment.

5.8. Financial assets and liabilities held for trading

Trading assets and liabilities that are measured at fair value through profit or loss in accordance with the business model within which they are managed.

All changes in fair value are recognised as part of net trading income in profit or loss.

5.9. Non-current assets classified as held for sale and discontinued operations

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

5.10. Investments in securities

Investments in securities are initially measured at fair value and subsequently accounted for depending on their classification depending on the business model (see Note 5.6.1).

5.11. Investments in subsidiaries and associates

Subsidiaries are those enterprises controlled by the Bank. Associates are the enterprises where the Bank has significant influence, but not control over the financial and operating policies.

Investments in subsidiaries and associated entities are accounted for at cost in accordance with IAS 27 Separate Financial Statements except when the investment is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (see Note 5.9).

The Bank's investments in subsidiaries and associates are reviewed for impairment at each statement date. When there is an evidence for impairment it is recognised in the profit or loss as net loss from nonfinancial assets.

5.12. Derivatives

The Bank uses derivatives as forward, futures, swap and option deals to manage an exposure to market risk or for trading. All derivatives are recognised as financial assets held for trading or financial liabilities at the trade date. The changes in market value of derivatives are recognised in the Statement of profit or loss. For derivatives designated as hedging instruments see further below.

The objective of hedge accounting is to represent, in the financial statements, the effect of an Bank's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which the Bank has elected to present changes in fair value in other comprehensive income).

A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options.

A non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income.

For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income.

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a forecast transaction or a net investment in a foreign operation.

A hedging relationship qualifies for hedge accounting only if all the following criteria are met:

- The hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio);
- The hedging relationship meets all of the following hedge effectiveness requirements: there is an economic relationship between the hedged item and the hedging instrument; the effect of credit risk does not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

The Bank applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 of IFRS 9.

Rebalancing refers to the adjustments made to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. Rebalancing is accounted for as a continuation of the hedging relationship. On rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognised immediately before adjusting the hedging relationship. Adjusting the hedge ratio allows the Bank to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables.

The Bank shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is part of, and consistent with, the entity's documented risk management objective.

5.13. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future term. They include loans and advances to banks and loans and advances to customers.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the statement of financial position.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured in accordance with the business model and the result from the test whether the contractual cash flows represent solely payments of principal and interest (SPPI test).

5.14. Receivables under factoring arrangements

Upon initial recognition, receivables under factoring contracts are recognised at fair value, including costs directly attributable to the acquisition of the financial asset. Subsequently, receivables are carried at amortised cost, less any costs of impairment. Factoring receivables are derecognised when the derecognition criteria applicable to financial assets are met.

Non-recourse factoring receivables

Pursuant to the non-recourse factoring contract, the supplier (Assignor) transfers to the Factor receivables originating from a contract for the sale of goods and provision of services concluded between the supplier and its customers (the Debtors). The Bank recognises its non-recourse factoring receivables by measuring them initially at fair value depending on the level of risks and benefits assumed associated with the ownership of the receivables being transferred.

A local factoring is a factoring of receivables from commercial activity carried out on the territory of Bulgaria.

Recourse factoring receivables

Recourse factoring receivables are reported up to the amount paid, which is the advance provided to customers with whom factoring contracts have been concluded.

5.15. Goodwill

Goodwill arising in a business combination is measured as the excess of the sum of the consideration transferred over the participation of the acquirer in the fair value of the identifiable assets, liabilities and the contingent liabilities of the acquiree. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

5.16. Property, plant and equipment

The Bank applies a policy to measure subsequently land and buildings at revalued amount under the allowed alternative approach in IAS 16, Property, plant and equipment.

Items of land and buildings are stated at fair value determined periodically by a professional registered valuer. The revaluation of assets is carried asset by asset based on proportional calculation of the book value of the asset and the accumulated for it depreciation as of the date of revaluation. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly as revaluation reserve. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized as a decrease of previous revaluation reserve and any excess is recognized as an expense in the statement of profit or loss.

Items of fixtures and fittings and other tangible assets are stated in the statement of financial position at their acquisition cost less accumulated depreciation.

Depreciation is provided on a straight-line basis at designed to write down the cost of property, plant, and equipment over their expected useful life.

The annual rates of depreciation used by the Bank are as follows:

| | % |
|---|---------|
| • Buildings | 2 - 4 |
| • Leasehold improvements, depending on the duration of the contract | 10 - 34 |
| • Machines and equipment | 4 - 50 |
| • Vehicles (without motor cars) | 10 |
| • Computers | 20 - 25 |
| • Fixtures and fitting and other depreciable fixed assets | 15 - 50 |

The expected useful lives of property, plant and equipment are reviewed at the end of each reporting period and in case of significant deviations from expected term of use of the assets, the useful life is amended prospectively.

An item of property, plant and equipment is derecognized from the statement of financial position when it is permanently retired from active use and no future benefits are expected from its use, or it is sold. The gain or loss on sale is determined as the difference between sales proceeds and the carrying amount of the asset at the date of disposal. It is reported net under the heading "Other operating income, net" on the face of the statement of profit or loss for the year. The revaluation reserve of the sold item of land and buildings is transferred directly to retained earnings in the statement of changes in equity.

5.17. Intangible assets

Intangible assets, which are acquired by DSK Bank AD, are stated at cost less accumulated amortization and any impairment losses.

Amortization is calculated on a straight-line basis over the expected useful life of the asset, except for an asset recognized in a business combination (customer base), which is amortised under the reducing balance method.

The annual rates of amortization are as follows:

| | % |
|--|---------|
| • Computer software and licenses, according to class and useful life | 20 - 50 |
| • Customer base recognized in a business combination | 35 |

An intangible asset is derecognized from the statement of financial position when it is permanently retired from active use and no future benefits are expected from its use, or it is sold. The gain or loss on sale is determined as the difference between sales proceeds and the carrying amount of the asset at the date of disposal. It is reported net under the heading "Other operating income, net" on the face of the statement of profit or loss for the year.

5.18. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

When an asset has a revaluation reserve, impairment loss is accounted for as a decrease of such reserve until it is depleted. If the decrease in the value of the asset exceeds the revaluation reserve, the excess is charged to the statement of profit or loss.

For assets that have no revaluation reserve, impairment losses are recognised in the statement of profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5.19. Leasing

5.19.1. General provisions

The recognition, measurement, presentation and disclosure of leases shall be made in accordance with the requirements of IFRS 16 Leasing, considering the terms and conditions of the contracts and all relevant facts and circumstances.

Upon initial recognition, the Bank determines whether a contract is a lease or contains a lease component. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank reassesses whether a contract is or contains a lease only if the terms and conditions of the contract are changed.

5.19.2. Accounting for the lease when the Bank is a lessee

On the commencement date, the Bank recognizes a right-of-use asset and a lease liability. The Bank measures the right-of-use asset at cost. The cost of the right-of-use asset includes:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments that are not paid at that date.

The Bank includes prolongation options as part of the lease contracts of buildings with a shorter, irrevocable period (from three to five years).

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments, less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Bank measures the right-of-use asset applying a cost model. The right-of-use asset is measured at cost:

- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or if the cost of the right-of-use asset reflects that the Bank will exercise a purchase option, the Bank depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Bank depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, the Bank measures the lease liability by:

- (a) increasing the carrying amount to reflect interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate implicit in the lease, if that rate can be readily determined, or the Bank's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined or if applicable the revised discount rate.

After the commencement date, the Bank remeasures the lease liability to reflect changes to the lease payments. The Bank recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Bank recognises any remaining amount of the remeasurement in profit or loss.

The Bank recognizes a right-of-use asset and lease liability for all lease contracts (a unified balance approach) with two exceptions:

- (a) short term leases - up to 12 months; and
- (b) leases for which the underlying asset is of low value. For the purpose of the standard low-value assets are up to BGN 10 000.

For short-term lease or lease, the underlying asset of which is of low value, the Bank recognizes the related lease payments as an expense on a straight-line basis over the term of the lease.

The effects of lease contracts of the Bank as lessee are disclosed in Notes 9, 14, 18, 28 and 34.

5.19.3. *Accounting for the lease when the Bank is a lessor*

The Bank as a lessor classifies each of its leases as either an operating lease or a finance lease. The leasing activity of the Bank involves the lease of vehicles, industrial equipment, real estate and others, on finance lease contracts.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Typical indicators, considered by the Bank for determining if all significant risks and benefits have been transferred include: present value of minimum lease payments in comparison with the fair value of the lease asset at the beginning of the lease contract, the term of the lease contract in comparison with the economic life of the leased out asset and also whether the lessee will acquire ownership over the leased asset at the end of the term of finance lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Minimum lease payments

Minimum lease payments are the payments that the lessee will or may be required to make during the term of the lease contract. From the Bank's point of view minimum lease payments also include the residual value of the asset guaranteed by a third party, not related to the Bank, provided that such party is financially capable of fulfilling its commitments under the guarantee or under the repurchase agreement. In the minimum lease payments, the Bank also includes the cost of exercising the option, which the lessee has for the purchase of the asset, as at the beginning of the lease contract it is to a large extent certain that the option will be exercised. Minimum lease payments do not include conditional rents, as well as costs of services and taxes to be paid by the Bank and subsequently re-invoiced to the lessee.

Initial and subsequent measurement

Initially the Bank recognizes a receivable under finance lease, equal to its net investment, which includes the present value of minimum lease payments and any unsecured residual value for the Bank. The present value is calculated by discounting the minimum lease payments due by the inherent to the lease contract interest rate. Initial direct costs are included in the calculation of the claim under finance lease. During the term of the lease contract the Bank accrues financial income (income from interest on finance lease) on net investment. Received lease payments are treated as a reduction of net investment (repayment of principal) and recognition of financial income in a manner to ensure a constant rate of return on net investment. Consequently, the net investment in finance lease contracts is presented net, after deduction of expected credit loss (see Note 5.6.8).

5.20. Assets acquired from collaterals

Acquired assets, which prior to their acquisition were held as collateral of loans granted, are classified by the Bank as other assets. According to the Bank's accounting policy, assets classified as other assets acquired from collaterals, are subsequently measured at the lower of cost and net realizable value.

5.21. Inventories

The measuring of inventories at their acquisition is of the amount of purchase, which includes the sum of all purchase and processing costs, as well as other expenses, incurred in connection with the delivery of inventories to their current location and condition.

The used cost formula is "first in - first out" (FIFO).

Inventories are presented in the statement of financial position at the lower of cost and net realizable value. For this reason, annually, as at the date of the Bank's financial statements, an estimation of the net realizable value of these assets is performed based on the most reliable existing data at the valuation date.

5.22. Provisions

The provisions are current liabilities and incurred expenses of the Bank for which there is uncertainty in terms of timing and amount of future expenses necessary for settlement of the liability.

Provision shall be recognized in the financial statements of the Bank when:

- The Bank has a present obligation (legal or constructive) as a result of past events;
- Probability exists that to repay the obligation, an outflow of economic benefits will be required and
- A reliable measurement can be performed of the amount of liability.

Provision is also recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. For calculation of provisions is used credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions shall be reviewed at the end of each reporting period to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

A provision shall be used only for expenditures for which the provision was originally recognised.

5.23. Deposits

Deposits are one of the Bank's sources of debt funding.

Deposits are initially measured at fair value minus incremental direct costs, and subsequently measured at their amortised cost using the effective interest rate method.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

5.24. Capital and reserves

5.24.1. Share capital

The share capital is presented at the par value of the shares issued and subscribed by the shareholders of the Bank.

5.24.2. Reserves

Reserves are comprised of legal and other reserves and retained earnings, revaluation reserves of financial assets, revaluation reserve of properties, defined benefit pension reserve and share-based payment reserve.

More information for the Bank's reserves is provided in Note 39.

5.25. Contingent liabilities

Contingent liabilities are:

- Unused funds on loans and credit lines authorized by the Bank;
- Possible obligations of the Bank arising from past events and whose existence can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that cannot be entirely controlled by the Bank; or
- A current liability arising from past events, however, unrecognized because it is improbable that an outflow of resources including economic benefits will be required for its repayment or the amount of obligation cannot be identified reliably enough.

Major areas in DSK Bank's activity arising and subject of a review for the needs of their recognition and provision are related with:

- Claims against the Bank on cases enforced by clients, counterparties and employees of the Bank;
- Taxation risks obligations;
- Possible claims against the Bank related to ownership;
- Other potential obligations – on contracts with counterparties which under certain circumstances would lead to cash outflows from the Bank and others.

5.26. Income taxes

Tax on the profit for the year comprises current tax and deferred tax. Tax on the profit is recorded in the statement of profit or loss except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates effective or enacted by the statement date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the statement of financial position liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the statement of profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entities.

5.27. Employee benefits

5.27.1. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay any further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank's contributions to the defined contribution pension plan are recognised as an employee benefit expense in statement of profit or loss in the periods during which services are rendered by employees.

5.27.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation with respect to defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art.222, § 3 of the Labour Code in Bulgaria. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Bank is obliged to pay compensations amounting to two gross monthly salaries. In case the employee's length of service in the company or in the group to which the company belongs, equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. If the employee has worked continuously for the Bank for a certain period, the Collective Labour Contract provides the following compensations: from ten to fifteen years – the severance payment is seven gross monthly salaries; more than fifteen years – the severance payment is eight gross monthly salaries. As at the reporting date the Management of the Bank estimates the approximate amount of the potential expenditure for every employee based on a calculation performed by a qualified actuary using the projected unit credit method as at the statement date. The estimated amount of the current year obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the financial statements in Note 35.

The Bank recognises actuarial gain or loss arising from defined benefit plans in the statement of comprehensive income.

5.27.3. Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

5.27.4. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to unused annual paid leave expected to be used by the employees in subsequent periods.

5.28. Share-based payments

The Bank recognises the services received or acquired in a share-based payment transaction as the services are received. The Bank recognises a corresponding increase in equity if the services were received in an equity-settled share-based payment transaction, or a liability if the services were acquired in a cash-settled share-based payment transaction.

For equity-settled share-based payment transactions, the Bank measures the services received, and the corresponding increase in equity, directly, at the fair value of the services received, unless that fair value cannot be estimated reliably. If the Bank cannot estimate reliably the fair value of the services received, the Bank measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the Bank measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Bank remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

For share-based payment transactions, where the Bank is the receiver of services, which are settled based on shares of the parent company, the Bank measures in its separate financial statements the services received as either an equity-settled or a cash-settled share-based payment transaction by assessing: (a) the nature of the awards granted, and (b) its own rights and obligations. The Bank measures the services received as an equity-settled share-based payment transaction when:

- (a) the awards granted are its own equity instruments, or equity instruments of the parent company, or
- (b) the Bank has no obligation to settle the share-based payment transaction.

The Bank subsequently remeasures such an equity-settled share-based payment transaction only for changes in non-market vesting conditions. In all other circumstances, the Bank measures the services received as a cash-settled share-based payment transaction.

5.29. Merger of acquired subsidiaries

In accordance with IFRS 3 “Business Combinations”, a legal merger of an entity into an acquirer represents in substance a business combination from the position of the acquirer and for the purposes of the acquirer’s separate financial statements. For this reason the Bank has accounted for the legal mergers of its subsidiaries acquired, by applying the acquisition method. The merged identifiable net assets are recognized at their carrying amounts reported in the consolidated financial statements of the Bank as at the date of the merger. Such carrying amounts represent the fair values of the net assets recognized in the consolidated balance sheet at the date of acquisition of the respective subsidiary, adjusted for subsequent depreciation, amortization, any impairment losses and other changes, recognized until the date of the merger. The assets recognized at the merge date also include the goodwill and any identifiable intangible assets recognized on acquisition of the subsidiary (Notes 27 and 30).

5.30. Legal merger of a subsidiary

The legal merger of a subsidiary into a parent company is a transaction in which two entities form one legal entity without the issuance of shares or other cash contributions. This type of transaction represents a combination of companies under common control, as both before and after the merger, the ultimate owner remains unchanged. A combination of entities under common control is outside the scope of IFRS 3 Business Combinations. For this reason, in accordance with IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors*, management has used its own judgment to develop and apply an accounting policy for reporting of the merger.

The Bank accounts for the legal merger of a 100% owned subsidiary using the book value method. The transferred assets and liabilities of the subsidiary are recognized by the Bank at their balance sheet values at the merger date. Intragroup balances between the Bank and the merging company on the date of merger are eliminated.

The difference between the amounts of assets and liabilities recognized in the separate financial statement after the legal merger and the book value of the investment in the merging company before the legal merger is reported directly in retained earnings as a merger effect.

Transactions with non-controlling shareholders of the merging company are accounted for as transactions with owners and are recognized directly in the Bank’s equity.

6. Risk management disclosures

6.1. Structure and functions of the Risk Management Unit

The credit risk management of the Bank is the responsibility of two divisions, which are independent from the business units, each managed by an Executive Director. The various credit risk management functions are performed by the following:

Risk Management Division:

- Credit risk - Corporate Clients Directorate, having functions related to approval of exposures to corporate and small and medium-sized (SME) clients until 1 October 2021, and afterwards – solely corporate clients, depending on the specified competencies, while maintaining low level of credit risk as well as functions related to ongoing monitoring of business clients. After 1 October 2021 a part of the SME clients are re-directed to the Corporate Clients – Middle Market segment, and the rest – to the Small Business Segment;
- Credit risk – Individual Clients Directorate, having functions related to maintaining of adequate mechanisms of assessment, monitoring and management of credit risk, and approving loan applications based on an acceptable level of risk, in the Individuals and Small Business segments, as well as preparation and validation of models for credit risk assessment and analysis of the loan portfolio;
- Retail loans Validation Department having functions related to management of the process of centralized approval of all types of retail loans for which decision taking is not based on automatic checks;
- Collateral Validation Department having functions related to approval of valuation and revaluation of real estate;
- General Policy and Risk Management Directorate having functions related to management of the counterparty, market and operational risk, and the credit risk policy, through adequate controls and methodologies, delivery of the regulatory reporting regarding the assumed risk and improvement of the risk management and risk reporting practices;
- Credit Control and Administration Department having functions related to implementation of credit utilization control of business clients.

Collection Division:

- The Collection Division was established in 2020 with the purpose to achieve a better segregation of duties between loan origination, risk monitoring and collection and restructuring. In line with the OTP Group decision, based on recommendation from the Hungarian National Bank, the collection activity (which was previously hosted under the Risk Management Division) moved from May 1st 2020 into a newly established Collection Division. The Head of the Collection Division is also a member of the Management Board. In accordance with the ECB Guidance to banks on non-performing loans, the Collection Division is operationally independent from the units responsible for loan origination and classification. The division includes 4 units responsible for different segments of non-performing loans, namely: individuals; legal entities; real estate representing collateral on non-performing loans; and a unit engaged with management and regulatory reporting, preparing also operational reports and analyses related to non-performing loan management.
- In order to improve the efficiency of the collection activity, in the last quarter of 2021, a project was started to unify the processes of collection of receivables in DSK Bank and the subsidiary OTP Factoring Bulgaria by merging the structures for the operational work of problem loans in different stages of management. This process was successfully completed in 2022 and was implemented as a standard work process in both companies, with staff from both companies operating in unified structures and a common management model was established by consolidating best practices and experiences.

- Following the initiative described above and with the aim of achieving even better efficiency of the work on the non-performing portfolio, in 2023 the company OTP Factoring Bulgaria was merged into DSK Bank together with the entire portfolio managed by the company and which in substance is the portfolio of DSK Bank, previously sold to the company for management. The merger further strengthened the changed structure, consolidated best practices and improved the operational work process. After the operating process is fully unified and focused on the operation of a single portfolio using a single network of systems, future management will be focused on the continuous adjustment and rationalization of the unified process.

Below are presented the various risks on which DSK Bank is exposed to as well as the approaches taken to manage those risks.

6.2. Liquidity risk

Liquidity risk occurs as a result of the necessity to provide general funding for DSK Bank's activities and the management of its positions. It includes both the risk of being unable to settle liabilities and the risk of a financial loss caused by forced sale of financial assets in order to provide liquidity.

DSK Bank maintains active trading positions in a limited number of derivative and non-derivative financial instruments. Most of DSK Bank's derivative trading activities are aimed at offering products to corporate clients at competitive prices and liquidity management.

The goal of liquidity risk management of the Bank is to ensure that it will always have sufficient level of liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses from selling liquid assets or expensive financing.

The executive Body, responsible for managing the liquidity is Asset and Liability Committee (ALCO).

To analyse the liquidity, the Bank prepares a maturity table for assets and liabilities, in which the cash flow from different assets and liabilities are distributed in different time bands, according to their payment date.

The following table presents the liabilities of DSK Bank distributed by their remaining term to maturity into relevant maturity zones based on undiscounted cash outflows.

Residual contractual maturities of financial liabilities as of 31 December 2023

| | Carrying amount | Gross nominal flow | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years |
|---|--------------------|--------------------------|-------------------|-----------------------|-------------------------------|----------------------|-----------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | 66 215 | 66 215 | 53 515 | - | - | 12 700 | - |
| Derivative financial instruments | 64 382 | 64 382 | 6 027 | 44 130 | 11 716 | 2 509 | - |
| Deposits from customers | 26 407 135 | 26 409 125 | 24 658 527 | 627 439 | 1 092 014 | 31 145 | - |
| Loans from banks and financial institutions | 1 077 844 | 1 158 668 | - | - | - | 787 037 | 371 631 |
| Lease liabilities | 17 602 | 18 077 | 829 | 1 115 | 4 762 | 11 201 | 170 |
| Provisions | 67 740 | 67 740 | 18 509 | 4 154 | 29 505 | 15 251 | 321 |
| Deferred tax liabilities | 17 611 | 17 611 | - | - | - | 17 611 | - |
| Other liabilities | 145 234 | 145 234 | 75 585 | 4 340 | 1 883 | 63 426 | - |
| Subordinated debt | 450 090 | 452 647 | - | - | - | 452 647 | - |
| Total liabilities | 28 313 853 | 28 399 699 | 24 812 992 | 681 178 | 1 139 880 | 1 393 527 | 372 122 |
| Unused loan commitments | - | 3 265 763 | 1 652 013 | 411 146 | 1 059 210 | 140 500 | 2 894 |
| Total liabilities and commitments | 28 313 853 | 31 665 462 | 26 465 005 | 1 092 324 | 2 199 090 | 1 534 027 | 375 016 |

Residual contractual maturities of financial liabilities as of 31 December 2022

| | Carrying amount | Gross nominal flow | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years |
|---|--------------------|--------------------------|-------------------|-----------------------|-------------------------------|----------------------|-----------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | 60 186 | 60 186 | 40 553 | - | - | 19 633 | - |
| Derivative financial instruments | 95 927 | 95 927 | 12 054 | 52 591 | 28 587 | 1 401 | 1 294 |
| Deposits from customers | 23 969 970 | 23 970 066 | 22 252 536 | 590 098 | 1 081 911 | 45 521 | - |
| Loans from banks and financial institutions | 631 806 | 633 447 | - | - | - | 476 178 | 157 269 |
| Lease liabilities | 21 638 | 22 206 | 624 | 1 193 | 5 086 | 14 952 | 351 |
| Provisions | 76 689 | 76 689 | 18 999 | 3 272 | 35 865 | 18 168 | 385 |
| Deferred tax liabilities | 18 831 | 18 831 | - | - | - | 18 831 | - |
| Other liabilities | 163 477 | 163 477 | 104 435 | 5 166 | 2 560 | 48 521 | 2 795 |
| Subordinated debt | 225 431 | 227 498 | - | - | - | - | 227 498 |
| Total liabilities | 25 263 955 | 25 268 327 | 22 429 201 | 652 320 | 1 154 009 | 643 205 | 389 592 |
| Unused loan commitments | - | 3 042 118 | 1 503 298 | 176 187 | 1 131 148 | 227 357 | 4 128 |
| Total liabilities and commitments | 25 263 955 | 28 310 445 | 23 932 499 | 828 507 | 2 285 157 | 870 562 | 393 720 |

The tables below set out the remaining expected maturities of the Bank's assets and liabilities based on their contractual dates of repayment. The tables do not reflect adjustments by maturity buckets, depending on the retention periods of funds borrowed from clients. The Bank manages the maturity gap between assets and liabilities by maintaining a liquidity buffer consisting of high-quality liquid assets. Such assets can be sold or pledged as collateral as necessary, for the purpose of covering liabilities.

Maturity analysis of assets and liabilities as of 31 December 2023

| | Carrying amount | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity |
|---|--------------------|-------------------|-----------------------|-------------------------------|----------------------|------------------|---------------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Assets | | | | | | | |
| Cash and current accounts with the Central Bank and other banks | 5 809 874 | 5 809 874 | - | - | - | - | - |
| Trading financial assets | 2 669 | - | - | 472 | 2 053 | 144 | - |
| Derivative financial instruments | 52 503 | 8 872 | 17 731 | 23 410 | 2 490 | - | - |
| Investments at fair value through profit or loss | 3 653 | - | - | - | - | - | 3 653 |
| Non-current assets classified as held for sale | 6 356 | 1 325 | - | 5 031 | - | - | - |
| Investments at fair value through other comprehensive income | 932 032 | 46 558 | 94 982 | 87 160 | 614 004 | 89 328 | - |
| Loans and advances to banks | 3 030 766 | - | - | 390 797 | 2 639 969 | - | - |
| Loans and advances to customers | 20 015 182 | 365 196 | 780 330 | 3 547 001 | 8 166 257 | 7 156 398 | - |
| Investments at amortised cost | 2 148 765 | 10 911 | 3 057 | 40 233 | 806 341 | 1 288 223 | - |
| Current tax assets | 3 179 | 3 179 | - | - | - | - | - |
| Investments in subsidiaries and associates | 77 532 | - | - | - | - | - | 77 532 |
| Goodwill | 77 372 | - | - | - | - | - | 77 372 |
| Right-of-use assets | 17 411 | - | - | - | - | - | 17 411 |
| Property, plant and equipment | 411 097 | - | - | - | - | - | 411 097 |
| Intangible assets | 76 895 | - | - | - | - | - | 76 895 |
| Other assets | 108 427 | 76 266 | 1 465 | 9 448 | 20 787 | - | 461 |
| Total assets | 32 773 713 | 6 322 181 | 897 565 | 4 103 552 | 12 251 901 | 8 534 093 | 664 421 |
| Derivatives assets | | | | | | | |
| Trading: | 34 878 | | | | | | |
| Outflow | | (282 654) | (105 284) | (223 041) | (69 029) | - | - |
| Inflow | | 283 369 | 106 798 | 224 384 | 69 789 | - | - |
| Hedge accounting: | 17 625 | | | | | | |
| Outflow | | (159) | (142) | (924) | - | - | - |
| Inflow | | 1 012 | 86 | 2 023 | - | - | - |
| Total derivatives | 52 503 | 1 568 | 1 458 | 2 442 | 760 | - | - |
| Liabilities | | | | | | | |
| Deposits from banks | 66 215 | 53 515 | - | - | 12 700 | - | - |
| Derivative financial instruments | 64 382 | 6 027 | 44 130 | 11 716 | 2 509 | - | - |
| Deposits from customers | 26 407 135 | 24 658 281 | 626 748 | 1 090 965 | 31 141 | - | - |
| Loans from banks and financial institutions | 1 077 844 | - | - | - | 784 301 | 293 543 | - |
| Lease liabilities | 17 602 | 800 | 1 077 | 4 594 | 10 961 | 170 | - |
| Provisions | 67 740 | 18 509 | 4 154 | 29 505 | 15 251 | 321 | - |
| Deferred tax liabilities | 17 611 | - | - | - | 17 611 | - | - |
| Other liabilities | 145 234 | 75 485 | 4 340 | 1 883 | 63 426 | - | 100 |
| Subordinated debt | 450 090 | - | - | - | - | 450 090 | - |
| Total liabilities | 28 313 853 | 24 812 617 | 680 449 | 1 138 663 | 937 900 | 744 124 | 100 |
| Unused loan commitments | - | 1 652 013 | 411 146 | 1 059 210 | 140 500 | 2 894 | - |
| Total liabilities and commitments | 28 313 853 | 26 464 630 | 1 091 595 | 2 197 873 | 1 078 400 | 747 018 | 100 |
| Derivatives liabilities | | | | | | | |
| Trading: | 33 470 | | | | | | |
| Outflow | | (197 176) | (108 598) | (204 214) | (69 743) | - | - |
| Inflow | | 196 389 | 106 907 | 203 249 | 69 029 | - | - |
| Hedge accounting: | 30 912 | | | | | | |
| Outflow | | - | (800 178) | (201 715) | - | - | - |
| Inflow | | - | 763 747 | 195 583 | - | - | - |
| Total derivatives | 64 382 | (787) | (38 122) | (7 097) | (714) | - | - |

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Maturity analysis of assets and liabilities as of 31 December 2022

| | Carrying amount | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity |
|---|--------------------|-------------------|-----------------------|-------------------------------|----------------------|------------------|---------------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Assets | | | | | | | |
| Cash and current accounts with the Central Bank and other banks | 5 789 538 | 5 789 538 | - | - | - | - | - |
| Trading financial assets | 6 652 | - | 2 113 | 11 | 4 147 | 381 | - |
| Derivative financial instruments | 108 819 | 15 265 | 37 979 | 52 734 | 1 475 | 1 366 | - |
| Investments at fair value through profit or loss | 2 908 | 2 908 | - | - | - | - | - |
| Non-current assets classified as held for sale | 3 500 | - | 3 500 | - | - | - | - |
| Investments at fair value through other comprehensive income | 1 195 102 | 53 228 | 134 224 | 119 502 | 780 456 | 107 692 | - |
| Loans and advances to banks | 2 629 263 | 1 597 | 205 190 | 481 818 | 1 940 658 | - | - |
| Loans and advances to customers | 16 702 998 | 356 064 | 613 256 | 3 393 346 | 6 623 773 | 5 716 559 | - |
| Investments at amortised cost | 1 611 753 | - | 47 559 | 127 090 | 658 103 | 779 001 | - |
| Current tax assets | 11 274 | 11 274 | - | - | - | - | - |
| Investments in subsidiaries and associates | 123 408 | - | - | - | - | - | 123 408 |
| Goodwill | 77 372 | - | - | - | - | - | 77 372 |
| Right-of-use assets | 21 512 | - | - | - | - | - | 21 512 |
| Property, plant and equipment | 415 132 | - | - | - | - | - | 415 132 |
| Intangible assets | 66 104 | - | - | - | - | - | 66 104 |
| Other assets | 202 503 | 157 194 | 1 650 | 23 322 | 19 741 | 596 | - |
| Total assets | 28 967 838 | 6 387 068 | 1 045 471 | 4 197 823 | 10 028 353 | 6 605 595 | 703 528 |
| Derivatives assets | | | | | | | |
| Trading: | 76 483 | | | | | | |
| Outflow | | (359 848) | (319 884) | (387 473) | (109 715) | - | - |
| Inflow | | 361 269 | 323 839 | 408 871 | 110 845 | - | - |
| Hedge accounting: | 32 336 | | | | | | |
| Outflow | | (9) | (73) | (97) | - | - | - |
| Inflow | | 237 | 268 | 508 | - | - | - |
| Total derivatives | 108 819 | 1 649 | 4 150 | 21 809 | 1 130 | - | - |
| Liabilities | | | | | | | |
| Deposits from banks | 60 186 | 40 553 | - | - | 19 633 | - | - |
| Derivative financial instruments | 95 927 | 12 054 | 52 591 | 28 587 | 1 401 | 1 294 | - |
| Deposits from customers | 23 969 970 | 22 252 474 | 590 089 | 1 081 892 | 45 515 | - | - |
| Loans from banks and financial institutions | 631 806 | - | - | - | 475 057 | 156 749 | - |
| Lease liabilities | 21 638 | 624 | 1 141 | 4 861 | 14 665 | 347 | - |
| Provisions | 76 689 | 18 999 | 3 272 | 35 865 | 18 168 | 385 | - |
| Deferred tax liabilities | 18 831 | - | - | - | 18 831 | - | - |
| Other liabilities | 163 477 | 104 435 | 5 166 | 2 560 | 48 521 | 2 795 | - |
| Subordinated debt | 225 431 | - | - | - | - | 225 431 | - |
| Total liabilities | 25 263 955 | 22 429 139 | 652 259 | 1 153 765 | 641 791 | 387 001 | - |
| Unused loan commitments | - | 1 503 298 | 176 187 | 1 131 148 | 227 357 | 4 128 | - |
| Total liabilities and commitments | 25 263 955 | 23 932 437 | 828 446 | 2 284 913 | 869 148 | 391 129 | - |
| Derivatives liabilities | | | | | | | |
| Trading: | 75 183 | | | | | | |
| Outflow | | (228 856) | (198 835) | (342 532) | (61 292) | - | - |
| Inflow | | 306 339 | 194 482 | 324 071 | 60 500 | - | - |
| Hedge accounting: | 20 744 | | | | | | |
| Outflow | | - | (424 963) | - | - | - | - |
| Inflow | | - | 391 166 | - | - | - | - |
| Total derivatives | 95 927 | 77 483 | (38 150) | (18 461) | (792) | - | - |

In addition to monitoring the liquidity position, the Bank also analyses the stability of the funds attracted from various sources in order to define the expected cash outflows. The analysis is prepared on a regular basis and the information about the changes of depositors' behaviour is reported to the management of the Bank.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- Demand deposits from customers are expected to remain stable or increase;
- Residential and non-residential mortgage loans to individuals have an average original contractual maturity of 24 years but as the main part of these loans are with equal annuity payments the average effective maturity is 14 years. In addition, the customers more often take advantage of full or partial early repayment option which according to the law is without penalty payment after the first year of the contract. For these reasons the average effective maturity of the loans is additionally decreased with up to 7 years in view of actual observed volume of earlier repayments during 2023.

As part of the management of liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and debt securities, which can be readily sold to meet liquidity requirements.

Responsible liquidity management requires avoiding concentration of attracted funds from large depositors. Analysis of attracted funds is made periodically and diversification in the general portfolio of liabilities is observed.

6.3. Market risk

Market risk is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates – will affect the Bank's income or the value of its holdings of financial instruments.

Exposure to market risk is managed in accordance with risk limits set by the respective competent authority.

DSK Bank applies and monitors the stop/loss limits and triggers of the trading book, and takes action in accordance with relevant internal procedures if the limits are reached.

The Bank holds a limited set of trading assets for which it is able to manage the risk. As presented in the table below, the credit quality of the maximum credit exposure, on the basis of the ratings issued from Moody's is high and thus the management considers that the assets in the trading book are not exposed to a significant market risk:

| <i>In thousands of BGN</i> | 31-December-2023 | 31-December-2022 |
|----------------------------|-------------------------|-------------------------|
| Government bonds | | |
| Rated Baa1 | 2 669 | 4 302 |
| Rated Baa3 | - | 2 350 |
| | - | 2 350 |
| Total | 2 669 | 6 652 |

6.3.1. Interest rate risk

The interest rate risk is the risk of bearing a loss due to fluctuations in market (reference) interest rates. The Bank manages separately the interest rate risk in the bank portfolio and the risk in its trading book.

The Bank's activities are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or undergo changes in their interest rates at different times and to a different degree. In cases of assets and liabilities with floating interest rates, DSK Bank is exposed to a risk of adverse changes in the market interest curves at lower degree.

Interest rate risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The actual effect will depend on a number of factors, including the degree to which repayments are made earlier or later than the contracted dates as well as variations in the interest rate, caused by the sensitivity to different periods and currencies.

The Bank manages the interest rate risk in its trading book and limits the risk level through defining limits for interest rate sensitivity (BPV limits) by currencies, time periods and issuers, as well as a limit for the period of holding the securities in the trading book (Turnover rate limit), limit for the maximum term until maturity of the securities, as well as limits for Value at Risk (VaR), Stop-loss limits for the maximum amount of loss and additional triggers - warning levels for loss, limit for the expected loss (Expected Shortfall - ES).

The Bank analyses the interest risk of the bank book, by classifying its financial assets and liabilities in time areas according to their sensitivity to the changes of interest rates.

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Exposure to interest rate risk as of 31 December 2023

| | Up to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | Over 2 years | Non- interest- bearing | Total |
|--|-------------------|-----------------------|------------------------|----------------------|------------------|------------------------------|-------------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Cash and current accounts with the Central Bank and other banks | 126 816 | - | - | - | - | 5 683 058 | 5 809 874 |
| Floating rate | 126 816 | - | - | - | - | - | 126 816 |
| Non-interest bearing | - | - | - | - | - | 5 683 058 | 5 683 058 |
| Trading financial assets | 8 | 29 | 464 | 2 024 | 144 | - | 2 669 |
| Fixed rate | 8 | 29 | 464 | 2 024 | 144 | - | 2 669 |
| Derivative financial instruments | 7 053 | 14 711 | 19 442 | - | - | 11 297 | 52 503 |
| Floating rate | 7 053 | 14 711 | 19 442 | - | - | - | 41 206 |
| Non-interest bearing | - | - | - | - | - | 11 297 | 11 297 |
| Investments at fair value through profit or loss | - | - | - | - | - | 3 653 | 3 653 |
| Non-interest bearing | - | - | - | - | - | 3 653 | 3 653 |
| Investments at fair value through other comprehensive income | 19 265 | 97 120 | 88 910 | 164 775 | 533 384 | 28 578 | 932 032 |
| Fixed rate | 19 265 | 97 120 | 88 910 | 164 775 | 533 384 | - | 903 454 |
| Non-interest bearing | - | - | - | - | - | 28 578 | 28 578 |
| Loans and advances to banks | - | - | 390 797 | 2 478 230 | 161 739 | - | 3 030 766 |
| Fixed rate | - | - | 390 797 | 2 478 230 | 161 739 | - | 3 030 766 |
| Floating rate | - | - | - | - | - | - | - |
| Loans and advances to customers | 19 412 118 | 47 398 | 117 902 | 78 834 | 335 426 | 23 504 | 20 015 182 |
| Fixed rate | 28 328 | 47 398 | 117 902 | 78 834 | 335 426 | - | 607 888 |
| Floating rate | 19 383 790 | - | - | - | - | - | 19 383 790 |
| Non-interest bearing | - | - | - | - | - | 23 504 | 23 504 |
| Investments at amortised cost | 14 963 | 7 742 | 46 294 | 136 687 | 1 943 079 | - | 2 148 765 |
| Fixed rate | 14 963 | 7 742 | 46 294 | 136 687 | 1 943 079 | - | 2 148 765 |
| Total interest sensitive assets | 19 580 223 | 167 000 | 663 809 | 2 860 550 | 2 973 772 | 5 750 090 | 31 995 444 |
| Fixed rate | 62 564 | 152 289 | 644 367 | 2 860 550 | 2 973 772 | - | 6 693 542 |
| Floating rate | 19 517 659 | 14 711 | 19 442 | - | - | - | 19 551 812 |
| Non-interest bearing | - | - | - | - | - | 5 750 090 | 5 750 090 |
| Deposits from banks | 23 530 | - | - | 12 699 | - | 29 986 | 66 215 |
| Fixed rate | - | - | - | 12 699 | - | - | 12 699 |
| Floating rate | 23 530 | - | - | - | - | - | 23 530 |
| Non-interest bearing | - | - | - | - | - | 29 986 | 29 986 |
| Derivative financial instruments | 3 964 | 12 992 | 5 739 | - | - | 41 687 | 64 382 |
| Floating rate | 3 964 | 12 992 | 5 739 | - | - | - | 22 695 |
| Non-interest bearing | - | - | - | - | - | 41 687 | 41 687 |
| Deposits from customers | 24 636 154 | 623 073 | 1 089 248 | 23 242 | 7 898 | 27 520 | 26 407 135 |
| Fixed rate | 1 537 561 | 623 073 | 1 089 248 | 23 242 | 7 898 | - | 3 281 022 |
| Floating rate | 23 098 593 | - | - | - | - | - | 23 098 593 |
| Non-interest bearing | - | - | - | - | - | 27 520 | 27 520 |
| Loans from banks and financial institutions | - | 1 076 756 | 1 088 | - | - | - | 1 077 844 |
| Floating rate | - | 1 076 756 | 1 088 | - | - | - | 1 077 844 |
| Non-interest bearing | - | - | - | - | - | - | - |
| Lease liabilities | 800 | 1 077 | 4 594 | 5 343 | 5 788 | - | 17 602 |
| Fixed rate | 432 | 582 | 2 481 | 2 885 | 3 125 | - | 9 505 |
| Floating rate | 368 | 495 | 2 113 | 2 458 | 2 663 | - | 8 097 |
| Subordinated debt | - | - | - | - | 450 090 | - | 450 090 |
| Floating rate | - | - | - | - | 450 090 | - | 450 090 |
| Total interest sensitive liabilities | 24 664 448 | 1 713 898 | 1 100 669 | 41 284 | 463 776 | 99 193 | 28 083 268 |
| Fixed rate | 1 537 993 | 623 655 | 1 091 729 | 38 826 | 11 023 | - | 3 303 226 |
| Floating rate | 23 126 455 | 1 090 243 | 8 940 | 2 458 | 452 753 | - | 24 680 849 |
| Non-interest bearing | - | - | - | - | - | 99 193 | 99 193 |

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Exposure to interest rate risk as of 31 December 2022

| | Up to 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 2 years | Over 2 years | Non- interest- bearing | Total |
|--|-------------------|-----------------------|------------------------|----------------------|------------------|------------------------------|-------------------|
| <i>In thousands of BGN</i> | | | | | | | |
| Cash and current accounts with the Central Bank and other banks | 51 485 | - | - | - | - | 5 738 053 | 5 789 538 |
| Floating rate | 51 485 | - | - | - | - | - | 51 485 |
| Non-interest bearing | - | - | - | - | - | 5 738 053 | 5 738 053 |
| Trading financial assets | - | 2 113 | 11 | 1 222 | 3 306 | - | 6 652 |
| Fixed rate | - | 2 113 | 11 | 1 222 | 3 306 | - | 6 652 |
| Derivative financial instruments | 12 085 | 29 556 | 31 653 | - | - | 35 525 | 108 819 |
| Fixed rate | - | - | - | - | - | - | - |
| Floating rate | 12 085 | 29 556 | 31 653 | - | - | - | 73 294 |
| Non-interest bearing | - | - | - | - | - | 35 525 | 35 525 |
| Investments at fair value through profit or loss | - | - | - | - | - | 2 908 | 2 908 |
| Non-interest bearing | - | - | - | - | - | 2 908 | 2 908 |
| Investments at fair value through other comprehensive income | 32 745 | 138 567 | 121 261 | 200 922 | 678 775 | 22 832 | 1 195 102 |
| Fixed rate | 32 745 | 138 567 | 121 261 | 200 922 | 678 775 | - | 1 172 270 |
| Non-interest bearing | - | - | - | - | - | 22 832 | 22 832 |
| Loans and advances to banks | 1 607 | 205 190 | 481 818 | 1 940 648 | - | - | 2 629 263 |
| Fixed rate | 1 593 | 205 190 | 481 818 | 1 940 648 | - | - | 2 629 249 |
| Floating rate | 14 | - | - | - | - | - | 14 |
| Loans and advances to customers | 15 898 846 | 37 746 | 311 997 | 103 065 | 314 039 | 37 305 | 16 702 998 |
| Fixed rate | 27 204 | 37 746 | 311 997 | 103 065 | 314 039 | - | 794 051 |
| Floating rate | 15 871 642 | - | - | - | - | - | 15 871 642 |
| Non-interest bearing | - | - | - | - | - | 37 305 | 37 305 |
| Investments at amortised cost | 2 280 | 52 704 | 129 503 | 55 695 | 1 371 571 | - | 1 611 753 |
| Fixed rate | 2 280 | 52 704 | 129 503 | 55 695 | 1 371 571 | - | 1 611 753 |
| Total interest sensitive assets | 15 999 048 | 465 876 | 1 076 243 | 2 301 552 | 2 367 691 | 5 836 623 | 28 047 033 |
| Fixed rate | 63 822 | 436 320 | 1 044 590 | 2 301 552 | 2 367 691 | - | 6 213 975 |
| Floating rate | 15 935 226 | 29 556 | 31 653 | - | - | - | 15 996 435 |
| Non-interest bearing | - | - | - | - | - | 5 836 623 | 5 836 623 |
| Deposits from banks | 24 302 | - | - | - | - | 35 884 | 60 186 |
| Fixed rate | 4 568 | - | - | - | - | - | 4 568 |
| Floating rate | 19 734 | - | - | - | - | - | 19 734 |
| Non-interest bearing | - | - | - | - | - | 35 884 | 35 884 |
| Derivative financial instruments | 7 185 | 22 593 | 9 430 | - | - | 56 719 | 95 927 |
| Floating rate | 7 185 | 22 593 | 9 430 | - | - | - | 39 208 |
| Non-interest bearing | - | - | - | - | - | 56 719 | 56 719 |
| Deposits from customers | 22 235 909 | 588 103 | 1 078 050 | 30 245 | 14 735 | 22 928 | 23 969 970 |
| Fixed rate | 1 584 292 | 588 103 | 1 078 050 | 30 245 | 14 735 | - | 3 295 425 |
| Floating rate | 20 651 617 | - | - | - | - | - | 20 651 617 |
| Non-interest bearing | - | - | - | - | - | 22 928 | 22 928 |
| Loans from banks and financial institutions | 371 659 | 260 147 | - | - | - | - | 631 806 |
| Fixed rate | - | - | - | - | - | - | - |
| Floating rate | 371 659 | 260 147 | - | - | - | - | 631 806 |
| Lease liabilities | 624 | 1 142 | 4 861 | 5 573 | 9 438 | - | 21 638 |
| Fixed rate | 273 | 533 | 2 233 | 2 611 | 5 169 | - | 10 819 |
| Floating rate | 351 | 609 | 2 628 | 2 962 | 4 269 | - | 10 819 |
| Subordinated debt | - | - | - | - | 225 431 | - | 225 431 |
| Floating rate | - | - | - | - | 225 431 | - | 225 431 |
| Total interest sensitive liabilities | 22 639 679 | 871 985 | 1 092 341 | 35 818 | 249 604 | 115 531 | 25 004 958 |
| Fixed rate | 1 589 133 | 588 636 | 1 080 283 | 32 856 | 19 904 | - | 3 310 812 |
| Floating rate | 21 050 546 | 283 349 | 12 058 | 2 962 | 229 700 | - | 21 578 615 |
| Non-interest bearing | - | - | - | - | - | 115 531 | 115 531 |

Equity instruments booked as investments at fair value through other comprehensive income (Note 26) are presented as non-interest bearing instruments in the tables above.

Non-interest bearing deposits from clients include mainly deposits for guarantees, funds for letters of credit and other.

Financial assets and liabilities in the table above are grouped by the earlier of the next contractual re-pricing date or maturity date.

DSK Bank manages the interest rate risk in the banking book (IRRBB) in accordance with the requirements of the European Banking Authority (EBA/GL/2018/02). The Bank measures the exposure to the IRRBB by calculating two main indicators – change in the net interest income (earning based indicator) and change in the economic value of equity (value-based indicator) under the interest rate scenarios specified in the EBA guidelines. They represent the sensitivity of DSK Bank’s earnings and equity to market interest rates changes. In calculating the indicators, the Bank makes business assumptions, including product characteristics, behavioral characteristics, early repayment, valuation ratios and modelling of deposits. The Bank has approved a risk appetite and limits for both indicators, and they are monitored and reported to management on a regular basis. Based on this approach for management of the interest rate risk in the banking portfolio the effect on equity and net interest income from the supervisory outlier test, parallel shift of interest rates by 200 bp, is presented in the table below:

| | Net interest income | | Equity | |
|-----------------------------------|---------------------|-----------------|-----------------|-----------------|
| | 200 bp increase | 200 bp decrease | 200 bp increase | 200 bp decrease |
| <i>Effect in thousands of BGN</i> | | | | |
| As at 31 December 2023 | 48 842 | (110 512) | (37 344) | 293 707 |
| As at 31 December 2022 | (8 929) | (91 171) | 92 521 | (162 037) |

Interest rate benchmark reform

On 5th March 2021 the Financial Conduct Authority (FCA) of the United Kingdom announced the dates after which all LIBOR settings will be ceased or no longer be representative. The dates are as follows:

- immediately after 31 December 2021, in the case of all Sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

In the current year, the Bank has stopped using LIBOR benchmarks and as of 31 December 2023, there are no active exposures.

6.3.2. Exchange rate risk

The Bank is exposed to exchange rate risk when conducting transactions with financial instruments denominated in foreign currencies.

As a result of the implementation of Currency Board in Bulgaria, the Bulgarian currency rate to the euro is fixed at 1.95583. The national reporting currency is the Bulgarian lev therefore the Bank's financial results are affected by fluctuations in the exchange rates between the Bulgarian lev and currencies outside the Euro-zone.

The risk management policy is aimed at limiting the possible losses from negative fluctuations of foreign currencies rates different from euro. The Bank senior management sets limits on maximum open positions – total and per currency, daily and overnight open positions, stop-loss limit and expected loss, as well as VaR (Value at Risk) limit to manage the Bank's exchange rate risk of the trading portfolio. Bank's strategy is to minimize the impact from the changes of exchange rates on financial results. The net open currency positions in the trading portfolio and the compliance with the approved limits by currency, as well as the strategic position of Assets and Liabilities Management in EUR are reported to management on a daily basis. The limits for restricting the exchange rate risk are periodically renewed based on analysis of market information and the inner needs of the Bank.

The Bank applies VaR methodology through a MRP (Market Risk Portal) system for market risk observation to measure the exchange rate risk. Basic characteristics of this model are: historical with 99% level of confidence and 1-day retention. To bring out a correlation matrix historical observations are used for exchange rate changes for 250 working days.

The statistics of the model for 2023 and 2022 are as follows:

| | 2023 | 2022 |
|----------------------------|-------------|-------------|
| <i>In thousands of BGN</i> | | |
| At 31 December | 15 | 157 |
| Average for the period | 53 | 31 |
| Maximum for the period | 292 | 213 |
| Minimum for the period | 7 | 2 |

VaR model has some limitations such as the possibility of losses with greater frequency and with larger amount, than the expected ones. For this purpose the quality of the VAR model is continuously monitored through back-testing the VAR results. To assess the currency risk in extreme conditions, stress test is used, based on potential changes of the currency rates, provided by the Market Risk Department of OTP Bank.

For monetary assets and liabilities denominated in foreign currencies that are not hedged, DSK Bank manages net exposure by buying and selling foreign currencies at spot rates when considered appropriate, within the approved limits for open currency position. The Bank is not exposed to a significant exchange rate risk in relation to transactions for which it applies hedge accounting according to IFRS 9. An analysis of the hedged items and hedging instruments is presented in Notes 11 and 22.2.

6.4. Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

6.4.1. Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In the context of the war in Ukraine crisis the identification and measurement of credit risk had to address the specific situation of clients and their capabilities to replace respective clients or suppliers from the area of the military conflict. DSK Bank monitors monthly whether a significant increase of credit risk has occurred. The assessment is performed either in the process of individual case-by-case monitoring and review of a given loan, or in the presence of indicators of increased credit risk, such as days past due, default on other loans in the retail individuals segment (as long as it does not trigger a cross-default), watchlist status, forbearance (as long as it does not trigger NPL classification it serves as a Stage 2 trigger). A significant increase of credit risk may be determined based on the behavior model which uses up-to-date information on account history, status of other loans of the same customer owed to other financial institutions reporting in the Central Credit Registry. In November 2023, DSK Bank improved the way in which the result of the behavioral model affects the assessment of the presence or absence of a significant increase in credit risk compared to the initial recognition. The previously used absolute amount of expected loss as an indicator of the change in the level of risk was replaced by a threefold increase in the probability of default for all credit exposures that are not low credit risk instruments. Instruments with low credit risk in the credit portfolio are all credit exposures falling into rating 1 on the master scale of OTP Bank.

As of 31 December 2023, the management determined the corporate segment exposures with significant increase in credit risk due to one or more of the listed above factors, as well as of the following major factors, arising from the operating environment and leading to significantly increased credit risk:

- disruptions in the supply chains;
- increase in the prices of resources and energy, together with a case-by-case assessment of the borrower's financial position (including rating assessment of the client);
- increase in interest rates (mainly in corporate exposures) together with a case-by-case assessment of the borrower's financial position and its capability to keep serving the debt without concessions from the side of the Bank.

In the retail segment the assessment is based on behavioral models.

6.4.2. Unlikelihood-to-pay assessment

DSK Bank performs a monthly unlikelihood to pay assessment to all the credit exposures. In the retail segment this assessment is mostly driven by standardized criteria such as cross-default (when it represents a significant part of the total exposure of the debtor), legal procedures against the borrower, constraints on accounts, etc. For corporate clients case-by-case analysis and monitoring checks are applied.

The Bank applies the definition of default in accordance with EBA/ GL/2016/07; EBA/RTS/2016/06; (EU) 2018/1845 as of 1 January 2021. As of 1 January 2021 the objective criterion for default is based on the number of consecutive days for which there is a past due amount above a materiality threshold. Apart from the objective criterion for the number of consecutive days and a past due amount above a materiality threshold, in accordance with the guidance of EBA, the Bank performs an unlikelihood-to-pay assessment based on additional factors (distrains, restructuring with a significant change in NPV of an asset, individual judgement in case of corporate exposures).

6.4.3. Nature and scope of the systems for risk assessment – models for credit risk assessment

When determining the credit risk of a deal, the Bank uses statistical and/or expert models to assess the credibility of the client, thus providing a common standard for credit risk assessment. Based on the result from the application of such models, the client or the deal is classified in a certain risk pool.

The credit risk assessment models are developed taking into account the specifics of each customer segment, based mainly on the application of statistical approaches. For client segments, where historical data and/or volumes are insufficient, the Bank uses expert models for credit risk assessment. The responsibility for the modelling is with the Risk Management Division, which is independent from the business divisions. These models are not used for estimation of expected credit loss in view of impairment/provision calculations; however, the results of the models can influence the Bank's assessment of whether there has been a significant increase in credit risk.

Currently, the models developed and used in the risk management process of the Bank are three major types:

- Application PD models

The purpose of application PD model is to provide a reliable tool (quantitative measurement) for prediction of the future debt service by customers applying for credit. The Application PD model uses client data, which is available at the point of loan application, such as demographic data, credit history and behaviour within the Bank for individuals, or financial data for companies.

Calculated PD value represents the probability of default as a percentage from 0% to 100% during the 12 month period following the approval.

The application PD models are used for the assessment of probability of default when applying for credit of the following client segments:

- Individuals, requesting mass products in the retail banking – mortgage backed loans, revolving loans, consumer, quick and POS loans,
- Business clients in the Small Business segment;
- Corporate clients.

- Behavioural PD model

The purpose of the behavioural PD model is to provide a reliable tool for prediction of the future debt servicing based on the client's behaviour, when using the products of the Bank and servicing its debt obligations.

Based on the calculated PD result, which represents the probability of default during the 12 month- period following the calculation, the clients and their exposures are classified into pre-defined risk categories (ratings). The probability is expressed as a percentage from 0% to 100%.

The behaviour models have to be used as an analytical tool helping to assess the PD at a portfolio level. It can also be used to identify early warning signals.

The Bank has developed behaviour models for the individuals using mass products in the retail banking – mortgage loans, revolving and consumer loans. The Bank enforces these types of models for managing of the loan portfolio.

- Model assisting the collection of problem loans (Collection Model)

The purpose of the model is to distinguish problem loans for which the delay to undertake measures could probably lead to subsequent deterioration of the exposure of the Bank. When on the basis of the model high probability for deterioration of certain exposures is estimated, the Bank undertakes actions to collect it with the aim for minimisation of risk.

- Expert model

The expert models for assessment of customers applying for credits is based on the experts' expectations regarding the reasonable parameters to be used, their weight and cut-off levels. Finally, a matrix is determined, which provides the basis for pooling the customers into risk groups. The Bank uses expert models, when it is impossible to develop a statistical model due to insufficient transactions and/or defaults as well as when brand new products are created or a new segment becomes a target, when it is not possible an available statistical model to be applied.

The Bank has expert models for the municipalities segment, the public sector entities segment, and for individual deals assessment for the specialized lending segment.

The credit risk assessment models are subject to periodical review and are updated on an ongoing basis.

6.4.4. Expected Credit Loss measurement (ECL)

The key inputs used for measuring ECL are:

- probability of default or loss (PD/PL);
- loss given default or loss (LGD/LGL); and
- exposure at default or loss (EAD).

These figures are generally derived from internally developed statistical models within OTP Group and historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD/PL is an estimate of the likelihood of default or loss over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical migration models, and assessed using tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD/PL.

LGD/LGL is an estimate of the financial loss arising on the fact that a receivable is classified as receivable in default or loss. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral and other sources of repayment. The LGD/LGL models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default or loss date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default or loss. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

As of December 31, 2023, DSK Bank applies three macro scenarios for the calculation of expected credit losses for the loan portfolio. The weight of the most optimistic among the scenarios is 20%. The severe stress scenario assumes a shock similar to that of 2009. It hypothesizes a recession in the Euro Area caused by restrictive monetary policies. The probability of such a scenario in the current economic cycle is less than 10%. At the same time, the geopolitical environment suggests an increased likelihood of events similar to those observed in 2022, leading to conflicts that increase defense spending, affect budget deficits, may trigger new supply disruptions, inflationary and interest rate pressures. Given the elevated geopolitical risks, the weight of the severe stress scenario remains unchanged at 20%, instead of being reduced to 10% .

- In case only the optimistic scenario would apply, ECL would be 25.0% lower than the actual for 31 December 2023.
- In case only the baseline stress scenario would apply, ECL would be 14.2% lower than the actual for 31 December 2023.
- In case only the severe stress scenario would apply, ECL would be 67.7% higher than the actual for 31 December 2023.

6.4.5. Individual and collective assessment of expected credit losses

The following exposures are subject to collective impairment:

- all retail banking exposures, including POCI;
- receivables with an insignificant amount on an individual basis, which are not managed in the "Collection of receivables" Department, including POCI;
- receivables of a significant amount on an individual basis not classified as Stage 3 (non-performing), including POCI;
- commercial factoring receivables.

6.4.6. Groupings based on shared risk characteristics

For the purpose of collective ECL determination financial instruments are grouped on the basis of shared credit risk characteristics:

- instrument type;
- credit risk ratings;
- collateral type;
- date of initial recognition;
- internal rating;
- sector in the economy to which the debtor belongs;
- segment in which the debtor falls;
- the value of collateral in correlation towards the financial asset receivable if it has an impact on the probability of a default occurring (for example, loan-to-value ratios).

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

6.4.7. Credit quality

The Bank monitors credit risk per class of financial instrument.

An analysis of the Bank 's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

6.4.7.1. Cash at banks and loans and receivables from banks at amortised cost

| | 31-December-2023 | 31-December-2022 |
|--------------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Concentration by sector | | |
| Central bank | 4 974 036 | 4 830 982 |
| Other banks | 3 161 475 | 2 683 976 |
| Total | 8 135 511 | 7 514 958 |
| Concentration by region | | |
| Europe | 8 118 638 | 7 499 828 |
| North America | 15 947 | 14 243 |
| Asia | 640 | 355 |
| Australia | 286 | 532 |
| Total | 8 135 511 | 7 514 958 |

The concentration of credit risk as of 31 December 2023 is represented by the carrying amount of the largest exposure to one commercial bank, decreased with the collateral received which amounts to BGN 1 910 810 thousand (2022: 1 485 918 thousand).

6.4.7.2. Loans and advances to customers at amortised cost

| | 31-December-2023 | 31-December-2022 |
|------------------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Concentration by sector | | |
| Retail: | | |
| Mortgages | 5 921 008 | 4 826 539 |
| Other retail loans | 5 088 670 | 4 525 101 |
| Corporate: | | |
| Agriculture and forestry | 326 675 | 332 739 |
| Construction | 333 683 | 283 467 |
| Financial and insurance activities | 2 191 413 | 1 435 426 |
| Hotels and catering | 276 119 | 227 721 |
| Manufacturing | 3 030 833 | 2 134 172 |
| Real estate activities | 754 890 | 637 100 |
| State and local government | 79 446 | 32 009 |
| Trade and services | 1 194 278 | 1 206 166 |
| Transport and communications | 457 670 | 480 922 |
| Other industry sectors | 360 497 | 581 636 |
| Total | 20 015 182 | 16 702 998 |
| Concentration by region | | |
| Europe | 19 979 138 | 16 673 689 |
| North America | 12 382 | 11 319 |
| Asia | 18 395 | 13 120 |
| Africa | 4 707 | 4 439 |
| Australia | 79 | 102 |
| South America | 481 | 329 |
| Total | 20 015 182 | 16 702 998 |

As of 31 December 2023 17% of the carrying amount of loans to corporate clients is concentrated in one client (2022: 19%).

The exposure to the top 5 retail clients amounts to 0.13% and 0.15% of the carrying amount of loans to clients in the retail segment as of 31 December 2023 and 2022, respectively. Such exposures are fully collateralised.

6.4.7.3. Investments in securities

| | 31-December-2023 | 31-December-2022 |
|---|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Concentration by sector | | |
| <i>Investments in instruments measured at fair value through other comprehensive income</i> | | |
| Government bonds | 903 454 | 1 172 270 |
| Equity instruments | 28 578 | 22 832 |
| <i>Investments in instruments mandatory measured at fair value through profit or loss</i> | | |
| Equity instruments | 308 | 311 |
| Corporate debt securities | 3 345 | 2 597 |
| <i>Investments in instruments measured at amortized cost</i> | | |
| Government bonds | 1 757 907 | 1 611 753 |
| Corporate debt securities | 390 858 | - |
| Total | 3 084 450 | 2 809 763 |
| Concentration by region | | |
| Europe | 2 835 381 | 2 537 685 |
| North America | 107 715 | 125 120 |
| Asia | 141 354 | 146 958 |
| | 3 084 450 | 2 809 763 |

The carrying amount of the Bank's investments in securities represents the assets' maximum exposure to credit risk.

As of 31 December 2023 and 2022 the government bonds include BGN 1 399 580 thousand and BGN 1 397 839 thousand, respectively, issued by one issuer.

Corporate debt securities valued at amortized cost as of 31 December 2023 represent exposure to a related party as disclosed in Note 44.

DSK Bank diversifies the undertaken credit risks through the application of sector risk limits. The sector risk limits system is based on a methodology, which takes into account the historical data related to the development of the respective industries. Despite this the methodology for determining of sector limits provides top limit of the maximum share of the total business portfolio which could be allowed as risk in certain industry sector. This limits the concentration risk. Reaching the maximum share leads to application of more restrictive requirements during the process of risk taking (including higher level of approval) or to a decrease of credits in certain industry sector.

6.4.7.4. Loan commitments and financial guarantee contracts

| | 31-December-2023 | 31-December-2022 |
|------------------------------------|------------------|------------------|
| <i>In thousands of BGN</i> | | |
| Concentration by sector | | |
| Retail: | | |
| Collateralised by mortgage | 174 037 | 108 894 |
| Other retail loans | 415 009 | 387 734 |
| Corporate: | | |
| Agriculture and forestry | 94 664 | 90 241 |
| Construction | 401 721 | 331 221 |
| Financial and insurance activities | 243 414 | 199 469 |
| Hotels and catering | 13 258 | 13 888 |
| Manufacturing | 1 260 736 | 1 020 284 |
| Real estate activities | 92 459 | 181 613 |
| State and local government | 5 351 | 40 100 |
| Trade and services | 997 899 | 1 057 096 |
| Transport and communications | 88 103 | 71 615 |
| Other industry sectors | 110 121 | 75 095 |
| Total | 3 896 772 | 3 577 250 |
| Concentration by region | | |
| Europe | 3 895 773 | 3 568 668 |
| North America | 41 | 39 |
| Asia | 836 | 8 364 |
| Africa | 80 | 81 |
| Oceania | 30 | 24 |
| South America | 12 | 74 |
| Total | 3 896 772 | 3 577 250 |

6.4.8. Credit risk exposures per class of financial asset, internal rating and stage

The Bank uses an internal credit rating system, according to which customers are rated from 1 to 10 using internal grades as follows:

| Grade | Grade description | Probability of default (PD) | |
|-------|-------------------|-----------------------------|---------------|
| | | Low PD bound | High PD bound |
| 1 | Low risk | 0% | 0.27% |
| 2 | Low risk | 0.27% | 0.54% |
| 3 | Low risk | 0.54% | 0.93% |
| 4 | Moderate risk | 0.93% | 1.56% |
| 5 | Moderate risk | 1.56% | 2.62% |
| 6 | Moderate risk | 2.62% | 4.36% |
| 7 | Increased risk | 4.36% | 8.07% |
| 8 | Increased risk | 8.07% | 19.78% |
| 9 | High risk | 19.78% | 100.00% |
| 10 | Default | 100% | 100% |

The tables below provide an analysis of the Bank's credit risk exposure per class of financial asset, stage and internal credit rating used by the Bank for monitoring and management of credit risk, without considering the effects of any collateral or other credit enhancements. Unless specifically indicated, financial assets are presented at their carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Municipalities and public-sector entities (PSE) are reported separately as they are assessed by means of expert models different from the statistical models used for the rest of the clients.

6.4.8.1. Cash at banks and loans and advances to banks at amortised cost

| | 31-December-2023 | | | 31-December-2022 | | |
|------------------------------------|------------------|------------|------------------|------------------|------------|------------------|
| | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 | Total |
| <i>In thousands of BGN</i> | | | | | | |
| Grades 1-3: Low risk | 8 135 961 | - | 8 135 961 | 4 864 385 | - | 4 864 385 |
| Grades 4-6: Moderate risk | 1 817 | - | 1 817 | 2 670 781 | - | 2 670 781 |
| Grades 7-8: Increased risk | 539 | 199 | 738 | 301 | 288 | 589 |
| Total gross carrying amount | 8 138 317 | 199 | 8 138 516 | 7 535 467 | 288 | 7 535 755 |
| Loss allowance | (3 001) | (4) | (3 005) | (20 789) | (8) | (20 797) |
| Carrying amount | 8 135 316 | 195 | 8 135 511 | 7 514 678 | 280 | 7 514 958 |

6.4.8.2. Loans and advances to customers at amortised cost

31-December-2023

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|------------------------------------|-------------------|------------------|----------------|---------------|-------------------|
| <i>In thousands of BGN</i> | | | | | |
| Grades 1-3: Low risk | 9 765 037 | 423 192 | - | 833 | 10 189 062 |
| Grades 4-6: Moderate risk | 4 187 253 | 1 041 859 | - | 488 | 5 229 600 |
| Grades 7-8: Increased risk | 661 581 | 521 938 | - | 297 | 1 183 816 |
| Grade 9: High risk | 1 674 | 145 796 | - | 219 | 147 689 |
| Grade 10: Default | - | - | 466 100 | 16 532 | 482 632 |
| Municipality, PSE | 64 117 | - | - | - | 64 117 |
| Not rated | 3 228 402 | 143 398 | - | 18 | 3 371 818 |
| Total gross carrying amount | 17 908 064 | 2 276 183 | 466 100 | 18 387 | 20 668 734 |
| Loss allowance | (141 657) | (219 061) | (280 748) | (12 086) | (653 552) |
| Carrying amount | 17 766 407 | 2 057 122 | 185 352 | 6 301 | 20 015 182 |

31-December-2022

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|------------------------------------|-------------------|------------------|----------------|---------------|-------------------|
| <i>In thousands of BGN</i> | | | | | |
| Grades 1-3: Low risk | 7 527 603 | 70 744 | - | 618 | 7 598 965 |
| Grades 4-6: Moderate risk | 5 518 970 | 374 175 | - | 706 | 5 893 851 |
| Grades 7-8: Increased risk | 545 474 | 499 485 | - | 713 | 1 045 672 |
| Grade 9: High risk | 3 070 | 154 301 | - | 533 | 157 904 |
| Grade 10: Default | - | - | 529 551 | 27 569 | 557 120 |
| Municipality, PSE | 35 719 | - | - | - | 35 719 |
| Not rated | 1 968 366 | 177 878 | - | 61 | 2 146 305 |
| Total gross carrying amount | 15 599 202 | 1 276 583 | 529 551 | 30 200 | 17 435 536 |
| Loss allowance | (177 022) | (213 314) | (322 669) | (19 533) | (732 538) |
| Carrying amount | 15 422 180 | 1 063 269 | 206 882 | 10 667 | 16 702 998 |

6.4.8.3. Investments in securities measured at fair value through other comprehensive income

| <i>In thousands of BGN</i> | 31-December-2023 | | 31-December-2022 | | |
|----------------------------|------------------|--|------------------|--------------|------------------|
| | Stage 1 | | Stage 1 | Stage 3 | Total |
| Grades 1-3: Low risk | 703 674 | | 822 890 | - | 822 890 |
| Grades 4-6: Moderate risk | 228 358 | | 366 032 | - | 366 032 |
| Grade 10: Default | - | | - | 6 180 | 6 180 |
| Total fair value | 932 032 | | 1 188 922 | 6 180 | 1 195 102 |
| Loss allowance | (2 239) | | (4 293) | (2 111) | (6 404) |

6.4.8.4. Investments in securities measured at amortized cost

| <i>In thousands of BGN</i> | 31-December-2023 | | | 31-December-2022 | | |
|------------------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
| | Stage 1 | Stage 3 | Total | Stage 1 | Stage 3 | Total |
| Grades 1-3: Low risk | 1 436 201 | - | 1 436 201 | 1 141 959 | - | 1 141 959 |
| Grades 4-6: Moderate risk | 695 613 | - | 695 613 | 428 687 | - | 428 687 |
| Grade 10: Default | - | 32 167 | 32 167 | - | 70 931 | 70 931 |
| Total gross carrying amount | 2 131 814 | 32 167 | 2 163 981 | 1 570 646 | 70 931 | 1 641 577 |
| Loss allowance | (4 227) | (10 989) | (15 216) | (5 592) | (24 232) | (29 824) |
| Total carrying amount | 2 127 587 | 21 178 | 2 148 765 | 1 565 054 | 46 699 | 1 611 753 |

6.4.8.5. Loan commitments and financial guarantee contracts

| <i>In thousands of BGN</i> | 31-December-2023 | | | |
|-------------------------------|------------------|----------------|--------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Grades 1-3: Low risk | 1 841 115 | 12 322 | - | 1 853 437 |
| Grades 4-6: Moderate risk | 1 008 452 | 187 386 | - | 1 195 838 |
| Grades 7-8: Increased risk | 66 279 | 10 997 | - | 77 276 |
| Grade 9: High risk | 20 | 1 280 | - | 1 300 |
| Grade 10: Default | - | - | 1 360 | 1 360 |
| Municipality, PSE | 5 744 | - | - | 5 744 |
| Not rated | 751 524 | 10 293 | - | 761 817 |
| Total amount committed | 3 673 134 | 222 278 | 1 360 | 3 896 772 |
| Loss allowance | (25 692) | (12 023) | (379) | (38 094) |

| | 31-December-2022 | | | |
|-------------------------------|-------------------------|----------------|----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| <i>In thousands of BGN</i> | | | | |
| Grades 1-3: Low risk | 1 446 469 | 1 529 | - | 1 447 998 |
| Grades 4-6: Moderate risk | 1 474 758 | 100 292 | - | 1 575 050 |
| Grades 7-8: Increased risk | 104 578 | 8 973 | - | 113 551 |
| Grade 9: High risk | 7 | 541 | - | 548 |
| Grade 10: Default | - | - | 1 967 | 1 967 |
| Municipality, PSE | 40 188 | - | - | 40 188 |
| Not rated | 391 112 | 6 836 | - | 397 948 |
| Total amount committed | 3 457 112 | 118 171 | 1 967 | 3 577 250 |
| Loss allowance | (37 049) | (10 998) | (311) | (48 358) |

6.4.9. Loss allowance or provision by type of exposure

The next table summarizes the loss allowance and provisions by type of exposure as of 31 December 2023 and 2022:

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Cash at banks | (204) | (2 270) |
| Loans and advances to banks at amortised cost | (2 801) | (18 527) |
| Loans and advances to customers at amortised cost | (653 552) | (732 538) |
| Securities at fair value through other comprehensive income and securities at amortised cost | (17 455) | (36 228) |
| Loan commitments and financial guarantee contracts | (38 094) | (48 358) |
| Total | (712 106) | (837 921) |

6.4.10. Movement of gross book value and provisions for expected credit losses

The tables below summarize the movement of the gross carrying amount and the corresponding expected credit losses (ECLs) of the financial assets, as well as the movement of financial guarantee exposures and loan commitments, and the provisions thereon, for the years ending 31 December 2023 and 2022 by type of exposure.

6.4.10.1. Movement of the gross carrying amount and expected credit loss of cash at banks and loans and advances to banks at amortised cost

| | 2023 | | | | | |
|--|------------------------------|-----------------|------------------------------|------------|------------------------------|-----------------|
| | Stage 1 | | Stage 2 | | Total | |
| | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 7 535 467 | (20 789) | 288 | (8) | 7 535 755 | (20 797) |
| Change due to change in credit risk | - | - | - | 4 | - | 4 |
| New financial assets originated or purchased | 3 244 122 | (2 804) | - | - | 3 244 122 | (2 804) |
| Financial assets that have been derecognised | (2 641 272) | 20 583 | (89) | - | (2 641 361) | 20 583 |
| Foreign exchange differences | - | 9 | - | - | - | 9 |
| As at 31 December | 8 138 317 | (3 001) | 199 | (4) | 8 138 516 | (3 005) |
| | | | | | | |
| | 2022 | | | | | |
| | Stage 1 | | Stage 2' | | Total | |
| | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 5 065 497 | (10 278) | - | - | 5 065 497 | (10 278) |
| Transfer to stage 2 | (274) | 2 | 274 | (2) | - | - |
| Change due to change in credit risk | - | - | - | (6) | - | (6) |
| New financial assets originated or purchased | 4 390 902 | (20 376) | 14 | - | 4 390 916 | (20 376) |
| Financial assets that have been derecognised | (1 920 658) | 9 913 | - | - | (1 920 658) | 9 913 |
| Foreign exchange differences | - | (50) | - | - | - | (50) |
| As at 31 December | 7 535 467 | (20 789) | 288 | (8) | 7 535 755 | (20 797) |

6.4.10.2. Movement of the gross carrying amount and expected credit loss of loans and advances to customers at amortised cost
2023

| | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|--|-----------------------|------------------|-----------------------|------------------|-----------------------|------------------|-----------------------|-----------------|-----------------------|------------------|
| | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL |
| <i>In thousands of BGN</i> | | | | | | | | | | |
| As at 1 January | 15 599 202 | (177 022) | 1 276 583 | (213 314) | 529 551 | (322 669) | 30 200 | (19 533) | 17 435 536 | (732 538) |
| Transfer to stage 1 | 286 885 | (40 759) | (280 879) | 38 185 | (6 006) | 2 574 | - | - | - | - |
| Transfer to stage 2 | (1 233 389) | 15 281 | 1 321 974 | (52 820) | (88 585) | 37 539 | - | - | - | - |
| Transfer to stage 3 | (46 699) | 572 | (66 375) | 14 843 | 113 074 | (15 415) | - | - | - | - |
| Increases due to change in credit risk | - | (4 547) | - | (80 730) | - | (168 904) | - | (18 868) | - | (273 049) |
| Decreases due to change in credit risk | - | 94 537 | - | 82 532 | - | 85 816 | - | 8 607 | - | 271 492 |
| Write-offs | - | - | - | - | (122 549) | 122 549 | (17 151) | 17 151 | (139 700) | 139 700 |
| New financial assets purchased or originated | 6 884 806 | (53 059) | 489 404 | (39 393) | 149 011 | (75 298) | 6 842 | - | 7 530 063 | (167 750) |
| Financial assets that have been derecognised | (3 582 741) | 23 340 | (464 524) | 31 636 | (108 396) | 53 060 | (1 504) | 557 | (4 157 165) | 108 593 |
| As at 31 December | 17 908 064 | (141 657) | 2 276 183 | (219 061) | 466 100 | (280 748) | 18 387 | (12 086) | 20 668 734 | (653 552) |

6.4.10.2 Movement of the gross carrying amount and expected credit loss of loans and advances to customers at amortised cost (continued)
2022

In thousands of BGN

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------|---------------|-----------------|-------------------|------------------|
| | Gross carrying amount | | | | | |
| | ECL | ECL | ECL | ECL | ECL | | | | | |
| As at 1 January | 13 063 710 | (139 763) | 1 400 599 | (221 007) | 793 526 | (529 192) | 40 520 | (19 313) | 15 298 355 | (909 275) |
| Transfer to stage 1 | 317 544 | (38 863) | (290 102) | 27 924 | (27 442) | 10 939 | - | - | - | - |
| Transfer to stage 2 | (297 095) | 3 801 | 377 561 | (43 063) | (80 466) | 39 262 | - | - | - | - |
| Transfer to stage 3 | (56 977) | 790 | (81 244) | 20 387 | 138 221 | (21 177) | - | - | - | - |
| Increases due to change in credit risk | - | (25 754) | - | (59 762) | - | (101 113) | - | (6 864) | - | (193 493) |
| Decreases due to change in credit risk | - | 63 454 | - | 66 001 | - | 33 662 | - | 3 718 | - | 166 835 |
| Write-offs | - | - | - | - | (254 190) | 254 190 | (2 814) | 2 814 | (257 004) | 257 004 |
| New financial assets purchased or originated | 5 989 863 | (62 587) | 265 318 | (25 096) | 88 394 | (39 920) | 5 321 | - | 6 348 896 | (127 603) |
| Financial assets that have been derecognised | (3 417 843) | 21 900 | (395 549) | 21 302 | (128 492) | 30 680 | (12 827) | 112 | (3 954 711) | 73 994 |
| As at 31 December | 15 599 202 | (177 022) | 1 276 583 | (213 314) | 529 551 | (322 669) | 30 200 | (19 533) | 17 435 536 | (732 538) |

6.4.10.3. Movement of the fair value and expected credit loss of investments in securities measured at fair value through other comprehensive income

| | 2023 | | | | | |
|--|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| | Stage 1 | | Stage 3 | | Total | |
| | Fair value | ECL | Fair value | ECL | Fair value | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 1 188 922 | (4 293) | 6 180 | (2 111) | 1 195 102 | (6 404) |
| Decreases due to change in credit risk | - | 1 285 | - | - | - | 1 285 |
| Increases due to change in credit risk | - | - | - | (156) | - | (156) |
| Fair value net change | 21 052 | - | - | - | 21 052 | - |
| Reclassified to loans and advances | - | - | (6 180) | 2 267 | (6 180) | 2 267 |
| Financial assets that have been derecognised | (277 942) | 769 | - | - | (277 942) | 769 |
| As at 31 December | 932 032 | (2 239) | - | - | 932 032 | (2 239) |

| | 2022 | | | | | |
|--|-------------------|----------------|-------------------|----------------|-------------------|----------------|
| | Stage 1 | | Stage 3 | | Total | |
| | Fair value | ECL | Fair value | ECL | Fair value | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 1 725 597 | (3 088) | - | - | 1 725 597 | (3 088) |
| Transfer to stage 3 | (7 371) | 10 | 7 371 | (10) | - | - |
| Increases due to change in credit risk | - | (1 915) | - | (2 101) | - | (4 016) |
| Decreases due to change in credit risk | - | 53 | - | - | - | 53 |
| Fair value net change | (120 544) | - | (1 191) | - | (121 735) | - |
| New financial assets originated or purchased | 3 162 | - | - | - | 3 162 | - |
| Financial assets that have been derecognised | (411 922) | 647 | - | - | (411 922) | 647 |
| As at 31 December | 1 188 922 | (4 293) | 6 180 | (2 111) | 1 195 102 | (6 404) |

6.4.10.4. Movement of the gross carrying amount and expected credit loss of investments in securities carried at amortised cost

| | 2023 | | | | | |
|--|------------------------------|----------------|------------------------------|-----------------|------------------------------|-----------------|
| | Stage 1 | | Stage 3 | | Total | |
| | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 1 570 646 | (5 592) | 70 931 | (24 232) | 1 641 577 | (29 824) |
| Increases due to change in credit risk | - | - | - | (99) | - | (99) |
| Decreases due to change in credit risk | - | 1 479 | - | - | - | 1 479 |
| Net change in the amortised cost | (13 022) | - | 290 | - | (12 732) | - |
| New financial assets originated or purchased | 724 128 | (1 114) | - | - | 724 128 | (1 114) |
| Reclassified to loans and advances | - | - | (39 054) | 13 342 | (39 054) | 13 342 |
| Financial assets that have been derecognised | (149 938) | 1 000 | - | - | (149 938) | 1 000 |
| As at 31 December | 2 131 814 | (4 227) | 32 167 | (10 989) | 2 163 981 | (15 216) |

| | 2022 | | | | | |
|--|------------------------------|----------------|------------------------------|-----------------|------------------------------|-----------------|
| | Stage 1 | | Stage 3 | | Total | |
| | Gross carrying amount | ECL | Gross carrying amount | ECL | Gross carrying amount | ECL |
| <i>In thousands of BGN</i> | | | | | | |
| As at 1 January | 1 495 603 | (2 875) | - | - | 1 495 603 | (2 875) |
| Transfer to stage 3 | (68 788) | 95 | 68 788 | (95) | - | - |
| Increases due to change in credit risk | - | (2 311) | - | (24 137) | - | (26 448) |
| Decreases due to change in credit risk | - | 113 | - | - | - | 113 |
| Net change in the amortised cost | 13 010 | - | 2 143 | - | 15 153 | - |
| New financial assets originated or purchased | 306 935 | (899) | - | - | 306 935 | (899) |
| Financial assets that have been derecognised | (176 114) | 285 | - | - | (176 114) | 285 |
| As at 31 December | 1 570 646 | (5 592) | 70 931 | (24 232) | 1 641 577 | (29 824) |

6.4.10.5. Movement of loan commitments and financial guarantee contracts, and the provisions for loan commitments and financial guarantee contracts

| | 2023 | | | | | | | |
|--|------------------------------------|----------|------------------------------------|----------|------------------------------------|-------|----------------------------------|----------|
| | Stage 1 Outstanding exposure | ECL | Stage 2 Outstanding exposure | ECL | Stage 3 Outstanding exposure | ECL | Total Outstanding exposure | ECL |
| <i>In thousands of BGN</i> | | | | | | | | |
| As at 1 January | 3 457 112 | (37 049) | 118 171 | (10 998) | 1 967 | (311) | 3 577 250 | (48 358) |
| Transfer to stage 1 | 18 824 | (1 560) | (18 793) | 1 551 | (31) | 9 | - | - |
| Transfer to stage 2 | (148 365) | 1 666 | 148 547 | (1 724) | (182) | 58 | - | - |
| Transfer to stage 3 | (578) | 5 | (82) | 5 | 660 | (10) | - | - |
| Increases due to change in credit risk | - | (2 801) | - | (6 234) | - | (246) | - | (9 281) |
| Decreases due to change in credit risk | - | 16 345 | - | 1 870 | - | 66 | - | 18 281 |
| New loan commitments originated or purchased | 1 921 766 | (9 996) | 112 125 | (3 147) | 549 | (35) | 2 034 440 | (13 178) |
| Financial assets that have been derecognised | (1 575 625) | 7 698 | (137 690) | 6 654 | (1 603) | 90 | (1 714 918) | 14 442 |
| As at 31 December | 3 673 134 | (25 692) | 222 278 | (12 023) | 1 360 | (379) | 3 896 772 | (38 094) |

6.4.10.5 Movement of loan commitments and financial guarantee contracts, and the provisions for loan commitments and financial guarantee contracts (continued)

| | 2022 | | | | | | | |
|--|------------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|--------------|----------------------------------|-----------------|
| | Stage 1 Outstanding exposure | ECL | Stage 2 Outstanding exposure | ECL | Stage 3 Outstanding exposure | ECL | Total Outstanding exposure | ECL |
| <i>In thousands of BGN</i> | | | | | | | | |
| As at 1 January | 3 281 191 | (23 730) | 70 975 | (4 590) | 11 201 | (3 997) | 3 363 367 | (32 317) |
| Transfer to stage 1 | 30 982 | (4 150) | (22 373) | 1 223 | (8 609) | 2 927 | - | - |
| Transfer to stage 2 | (128 927) | 1 144 | 129 391 | (1 274) | (464) | 130 | - | - |
| Transfer to stage 3 | (8 535) | 76 | (1 092) | 48 | 9 627 | (124) | - | - |
| Increases due to change in credit risk | - | (12 406) | - | (8 355) | - | (125) | - | (20 886) |
| Decreases due to change in credit risk | - | 11 664 | - | 2 070 | - | 117 | - | 13 851 |
| New loan commitments originated or purchased | 1 849 350 | (14 106) | 94 353 | (1 445) | 184 | (14) | 1 943 887 | (15 565) |
| Financial assets that have been derecognised | (1 566 949) | 4 459 | (153 083) | 1 325 | (9 972) | 775 | (1 730 004) | 6 559 |
| As at 31 December | 3 457 112 | (37 049) | 118 171 | (10 998) | 1 967 | (311) | 3 577 250 | (48 358) |

6.4.11. Loans and advances to customers by overdue status

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

| | 31-December-2023 | | 31-December-2022 | |
|----------------------------|--------------------------------------|---------------------------|--------------------------------------|---------------------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| <i>In thousands of BGN</i> | | | | |
| 0-30 days | 20 241 752 | (393 498) | 17 009 164 | (467 104) |
| 31-60 days | 77 279 | (25 188) | 81 389 | (28 589) |
| 61-90 days | 39 972 | (14 141) | 39 001 | (16 775) |
| 91-180 days | 55 342 | (29 661) | 54 206 | (30 441) |
| More than 180 days | 254 389 | (191 064) | 251 776 | (189 629) |
| Total | 20 668 734 | (653 552) | 17 435 536 | (732 538) |

6.4.12. Modified and forborne loans

As a result of the Bank's forbearance activities financial assets can be modified.

The table below includes the assets that were modified and, therefore, treated as forborne during the period:

| | 31-December-2023 | 31-December-2022 |
|---|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Amortised cost before modification of financial assets modified during the period | 65 233 | 81 553 |
| Amortised cost after modification of financial assets modified during the period | 77 237 | 92 971 |

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12m ECL measurement during the period:

| 31-December-2023 | Gross carrying amount | Corresponding ECL |
|--|------------------------------|--------------------------|
| <i>In thousands of BGN</i> | | |
| Facilities that have cured since modification and are now measured using 12m ECL (Stage 1) | 41 304 | 268 |
| Facilities that reverted to (Stage 2/3) LTECL having once cured | 31 538 | 9 587 |
| | | |
| 31-December-2022 | Gross carrying amount | Corresponding ECL |
| <i>In thousands of BGN</i> | | |
| Facilities that have cured since modification and are now measured using 12m ECL (Stage 1) | 12 377 | 73 |
| Facilities that reverted to (Stage 2/3) LTECL having once cured | 33 722 | 12 377 |

The following tables provide a summary of the Bank's forbore assets:

| 31-December-2023 | Gross carrying amount of loans and advances to customers | Performing loans - Stage 2 | | Non-performing loans - Stage 3 | | Total forbearance ratio |
|---------------------------------|--|----------------------------|----------------------------------|--------------------------------|-------------------------------------|-------------------------|
| | | Modification | Refinancing | Modification | Refinancing | |
| | | | <i>performing forborne loans</i> | | <i>nonperforming forborne loans</i> | |
| | | | <i>Total</i> | | <i>Total</i> | |
| <i>In thousands of BGN</i> | | | | | | |
| Loans and advances to customers | | | | | | |
| Corporate lending | 9 281 391 | 68 822 | 5 141 | 25 231 | 8 713 | 1.16% |
| Consumer lending | 5 375 992 | 12 715 | 84 345 | 15 789 | 101 174 | 3.98% |
| Residential mortgages | 6 011 351 | 28 539 | 7 941 | 55 936 | 14 641 | 1.78% |
| Total | 20 668 734 | 110 076 | 97 427 | 96 956 | 124 528 | 6.92% |

| 31-December-2022 | Gross carrying amount of loans and advances to customers | Performing loans - Stage 2 | | Non-performing loans - Stage 3 | | Total forbearance ratio |
|---------------------------------|--|----------------------------|----------------------------------|--------------------------------|-------------------------------------|-------------------------|
| | | Modification | Refinancing | Modification | Refinancing | |
| | | | <i>performing forborne loans</i> | | <i>nonperforming forborne loans</i> | |
| | | | <i>Total</i> | | <i>Total</i> | |
| <i>In thousands of BGN</i> | | | | | | |
| Loans and advances to customers | | | | | | |
| Corporate lending | 7 651 033 | 193 348 | 6 091 | 44 088 | 10 939 | 3.33% |
| Consumer lending | 4 847 750 | 20 026 | 53 941 | 36 296 | 108 631 | 4.52% |
| Residential mortgages | 4 936 753 | 37 462 | 7 794 | 78 537 | 17 929 | 2.87% |
| Total | 17 435 536 | 250 836 | 67 826 | 158 921 | 137 499 | 10.72% |

The forbearance ratio is calculated as total forbore loans divided by the gross carrying amount of loans and advances to customers

| | Gross amount of forborne loans | | | ECL allowance | | |
|--|--------------------------------|----------------|----------------|---------------|----------------|----------------|
| | Stage 2 | Stage 3 | Total | Stage 2 | Stage 3 | Total |
| <i>In thousands of BGN</i> | | | | | | |
| Loans and advances to customers | | | | | | |
| Corporate lending | 73 963 | 33 944 | 107 907 | 17 774 | 23 690 | 41 464 |
| Consumer lending | 97 060 | 116 963 | 214 023 | 27 773 | 65 192 | 92 965 |
| Residential mortgages | 36 480 | 70 577 | 107 057 | 2 848 | 38 186 | 41 034 |
| Total | 207 503 | 221 484 | 428 987 | 48 395 | 127 068 | 175 463 |

| | Gross amount of forborne loans | | | ECL allowance | | |
|--|--------------------------------|----------------|----------------|---------------|----------------|----------------|
| | Stage 2 | Stage 3 | Total | Stage 2 | Stage 3 | Total |
| <i>In thousands of BGN</i> | | | | | | |
| Loans and advances to customers | | | | | | |
| Corporate lending | 199 439 | 55 027 | 254 466 | 51 806 | 35 778 | 87 584 |
| Consumer lending | 73 967 | 144 927 | 218 894 | 23 114 | 90 838 | 113 952 |
| Residential mortgages | 45 256 | 96 466 | 141 722 | 5 091 | 52 017 | 57 108 |
| Total | 318 662 | 296 420 | 615 082 | 80 011 | 178 633 | 258 644 |

6.4.13. Mortgage lending

The Bank holds residential properties as collateral for the mortgage loans it grants to its customers. The Bank monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

| | 31-December-2023 | | 31-December-2022 | |
|----------------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| <i>In thousands of BGN</i> | | | | |
| LTV ratio | | | | |
| Less than 50% | 1 253 494 | (5 942) | 884 758 | (4 884) |
| 51-70% | 1 635 054 | (7 573) | 1 239 757 | (7 203) |
| 71-90% | 1 788 046 | (7 958) | 1 601 864 | (9 412) |
| 91-100% | 822 906 | (3 337) | 723 321 | (3 847) |
| More than 100% | 403 597 | (2 991) | 346 673 | (3 879) |
| Total | 5 903 097 | (27 801) | 4 796 373 | (29 225) |

Overdue loans - mortgage lending

| | 31-December-2023 | | 31-December-2022 | |
|----------------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| <i>In thousands of BGN</i> | | | | |
| LTV ratio | | | | |
| Less than 50% | 29 677 | (13 029) | 35 310 | (16 750) |
| 51-70% | 27 975 | (10 760) | 33 729 | (15 051) |
| 71-90% | 14 752 | (7 147) | 24 723 | (12 272) |
| 91-100% | 4 424 | (2 767) | 7 443 | (3 899) |
| More than 100% | 31 426 | (28 839) | 39 175 | (33 017) |
| Total | 108 254 | (62 542) | 140 380 | (80 989) |

Loan commitments - Mortgage lending

| | 31-December-2023 | | 31-December-2022 | |
|----------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Amount committed | Loss allowance | Amount committed | Loss allowance |
| <i>In thousands of BGN</i> | | | | |
| LTV ratio | | | | |
| Less than 50% | 13 839 | (33) | 13 776 | (47) |
| 51-70% | 18 241 | (50) | 10 176 | (33) |
| 71-90% | 19 548 | (54) | 9 431 | (34) |
| 91-100% | 10 181 | (30) | 5 915 | (24) |
| More than 100% | 112 228 | (466) | 69 596 | (388) |
| Total | 174 037 | (633) | 108 894 | (526) |

6.4.14. Assets obtained by taking possession of collateral

In 2023 the Bank acquired real estate and other assets, pledged as collaterals for loans amounting to BGN 6 031 thousand (2022: BGN 5 124 thousand). The Bank's policy is to acquire real estate pledged as collateral in order to protect itself against market price fluctuations, and perform a careful assessment of whether the property can be realized at a reasonable price. The main purpose is to realise collateral on a timely basis and at the best possible price.

The table below presents information about the collateral of cash at the Central Bank and other banks, loans and advances to banks and other customers, measured at fair value determined in accordance with the Bank's policy, and capped to the gross carrying amount of the respective loans collateralised, as well as the amortised cost of loans and advances that have no collateral.

6.4.15. Loans and advances to banks and customers by type of collateral

| | 31-December-2023 | 31-December-2022 |
|----------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Secured by mortgages | 6 685 747 | 5 416 611 |
| Cash collateral | 57 435 | 60 941 |
| Government securities | 1 160 398 | 416 618 |
| Other types of collateral* | 7 203 527 | 7 495 296 |
| Without collateral | 13 700 143 | 11 581 825 |
| Total | 28 807 250 | 24 971 291 |

* Other types of collateral comprise tangible collateral, guarantees from credit institutions, pledge over receivables and personal guarantees for loans.

Loans and advances to banks include also the receivables on repurchase agreements. The table below represents the carrying amount of repurchase agreements and the fair value of collateral held:

| | 31-December-2023 | | 31-December-2022 | |
|-----------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| | Carrying amount | Collateral | Carrying amount | Collateral |
| <i>In thousands of BGN</i> | | | | |
| Repo receivables from banks | <u>1 160 398</u> | <u>1 200 453</u> | <u>416 618</u> | <u>442 736</u> |
| Total | <u>1 160 398</u> | <u>1 200 453</u> | <u>416 618</u> | <u>442 736</u> |

6.5. Operational risk

Operational risk means the risk of loss resulting from inadequate or malfunctioning internal processes, persons and systems or from external events, and includes legal risk.

The management of operational risk at the Bank is coordinated by Operational Risk Management Committee (ORMC), which is a permanent consultative body subordinated to the Management Board (MB) and involves the heads of the major units of Bank's Head Office. Chairman of the ORMC is the Head of the Risk Management Division. The meetings are held quarterly, discussing the level of operational risk and operational decisions are taken that are not assigned to the competence of the Management Board or other bodies and measures for mitigation/elimination of operational risks, are planned. The main focus of ORMC activity is the prevention of operational risks by implementing a comprehensive approach, aiming at limiting preconditions, leading to operational events occurrence. The reports about the level of operational risk reviewed at the ORMC are then forwarded to the MB of the Bank with a proposal for decisions to be taken based on these reports that are within its powers.

The responsibility for the development of the Operational risk management system is assigned to Operational Risk Management Section as part of the General Policy and Risk Management Directorate, which is part of the Risk Management Division, independent from the business units.

DSK Group has implemented a unified system for identification and management of operational risk, built on the model of OTP Bank Group. It is based on the collection of data on operational events that have occurred in the Group, analysis of the potential effect of such occurrences, and periodic information to management on the level of operational risk. The process was developed on the basis of the declaration of information by the heads of independent structural units in the Bank, responsible for operational risk management in their units, according to the adopted decentralized approach to operational risk management in OTP Bank Group.

Potential risks shall be reviewed as part of the business processes and for this reason they shall have to be identified in the self-assessment of the Bank's units, these risks shall be classified on the basis of the standardized taxonomy of operational risks annually. The methodology for identification of potential risks is based on a decentralized assessment performed by experts in the various sections/ units of the Bank, who are supported by the expertise of the Operational Risk Management Section.

As part of this process, the so-called scenario analyses are prepared, aimed to evaluate the potential effects on the financial position of the Bank and the Bank's processes, at a certain change in the risk factors associated with probable occurrence of an event with catastrophic consequences.

Additionally, the actual level of operational risk is monitored based on a Key Risk Indicator system which covers the main risk factors caused the significant operational risk losses and interruption in the critical business processes.

The Bank has a Business Continuity Plan for reaction in the event of unexpected circumstances, which purpose is to guarantee the recovery for the most important business processes to the preliminary defined level based on the Bank needs. The Plan's efficiency is tested annually in order to determine the readiness of the Bank to respond in times of crisis and to ensure continuity of the Bank's operations. The test results are reported to the MB of the Bank.

The developed rules and procedures for monitoring and evaluation of operational risk are in line with the requirements of EU and Bulgarian legislation, the standards of the OTP Group and best banking practice in operational risk management.

In accordance with European standards for the outsourcing of activities, the Group has developed policies and procedures for managing the risks arising from outsourced activities and services provided by third parties, part of which are the activities of due diligence of suppliers and assessment of the risk of assignment of the activity - methodology for initial and subsequent periodic assessment of the risk of outsourcing activities.

Similarly and in accordance with the internal normative rules, the models used in the Bank are subject to annual risk assessment.

Reputational risk, which is a result of operational events in the field of IT technologies, is calculated using a methodology developed according to the standard of the OTP Group.

Prior to the implementation of a new process, new system or new activity, the latter shall be analyzed and evaluated from the operational risk's viewpoint. This evaluation shall be prepared by the unit involved in the implementation, and shall be forwarded to the Operational Risk Management Section for further evaluation and analysis. For the preparation of the evaluation, the Risk Self-Assessment Forms shall be used. In cases when IT systems are implemented, the assessment shall be made by the unit(s) which has (have) defined the business requirements of the development.

The National Bank of Hungary and Bulgarian National Bank Joint Decision which approved the Group to apply the Advanced Measurement Approach for the capital calculation purposes on the individual and also on the consolidated basis has been in force since 31 March 2014. On its ground, the required regulatory capital for operational risk is calculated centrally by OTP Banking Group, and its adequacy is verified annually in the process of the Internal Capital Adequacy Analysis. In addition, an internal methodology for performing stress tests has been developed and applied, which assesses the adequacy of the allocated capital for operational risk of the Bank.

Annually, the Bank performs a product review, focusing on the potential conduct risk and on the most important controls integrated into the sales processes to mitigate this risk.

An insurance policy has been developed and is in force, according to which the Bank maintains valid insurance policies covering major risks such as theft and damage to tangible assets, valuables and others. Insurance policies are subject to regular review and update.

Annual internal training on the topic for operational risk is conducted for all employees, aimed at raising awareness of identifying and limiting operational risks. Training is also mandatory for all new employees.

The units responsible for the management of the different types of risk carry out constant ex-post control on a sample basis and at different intervals in order to ensure compliance with the rules and procedures to ensure consistency, security and validity of the transactions. This type of control is mainly aimed at detecting operational human and technical errors, uncommitted actions by responsible officials or intentional inaccuracies.

The operational risk management system is subject to the annual Supervisory Review and Evaluation Process (SREP), regular inspections by the "Bank Supervision" Department of Bulgarian National Bank, "Internal audit" Directorate of DSK Bank and specialized audits initiated and conducted by a program of OTP Bank.

In 2023 in DSK Banking Group, there are no registered operational events that could potentially jeopardize the Bank's activities. For all so-called extraordinary operational events that have a significant potential financial or reputational impact, action plans have been developed and all necessary and sufficient measures have been taken to limit their impact as well as to reduce and eliminate the likelihood of their occurrence in the future.

7. Capital Management

The Bank's regulatory capital requirements are based on CRD IV.

7.1. Regulatory capital

The Bank's regulatory capital for regulatory purposes as at 31 December 2023 and 31 December 2022 consists of:

- the Tier I capital which consists of the following major elements:
 - ordinary share capital;
 - regulatory and other reserves;
 - deductions for intangible assets adjusted with the accumulated prudential amortization of software and other regulatory adjustments relating to items that are included in equity or assets but are treated differently for capital adequacy purposes;
 - deduction in connection with insufficient provision coverage of non-performing exposures.

In addition, the Bank adds to the Tier I capital part of the expected credit loss provisions to mitigate the impact of the IFRS 9 implementation. This is a temporary measure introduced by Decision of the BNB Management Board from 15 May 2020 which expires on 31 December 2024.

- the Tier II capital which consists of subordinated term debt qualified as a second-tier instrument (Note 38). The Bank reports Tier II capital within its own capital starting from March 2023 after receiving supervisory approval.

The Bank calculates the total capital adequacy (the 'Basel ratio') as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market, and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 15.69%, buffers included. The total capital adequacy ratio, including combined buffers and the additional Pillar II guidance, should be higher than 20.04% as of 31 December 2023 compared to 19.25% as of 31 December 2022.

7.2. Capital ratios

| | Basel III 2023 | Basel III 2022 |
|---|---------------------------|---------------------------|
| <i>In thousands of BGN</i> | | |
| Tier 1 capital | 3 860 096 | 3 227 123 |
| <i>Common equity Tier 1 capital</i> | 3 860 096 | 3 227 123 |
| Tier 2 capital | 449 841 | - |
| Own funds | 4 309 937 | 3 227 123 |
| | | |
| Credit risk capital requirement | 1 425 822 | 1 253 657 |
| Market risk capital requirement | 308 | 1 789 |
| Operational risk capital requirement | 49 711 | 50 212 |
| Total requirement regulatory capital | 1 475 841 | 1 305 658 |
| | | |
| Surplus of total capital | 2 834 096 | 1 921 465 |
| CET1 capital ratio (%) | 20.92% | 19.77% |
| Capital adequacy ratio (%) | 23.36% | 19.77% |

The policy of the Bank management and allocation of capital is determined by the Management Board. Allocation of capital between different operations and activities aims to optimise the profitability of the allocated capital. The process is managed by ALCO by reviewing the level of credit, market, and operational risks undertaken by the Bank. The Bank together with OTP performs internal analysis of the size, type, and allocation of the required capital and assesses the need for an increase in regulatory required capital.

In connection with the implementation of the International regulatory framework Basel III for Banks additional capital buffers consistently are introduced. The aim is to provide additional funds for the recovery and restructuring of banks in a crisis, as well as to preserve the accumulated until the moment capital reserves for preventing or reducing the effects of long-term non-cyclical or macroprudential risks that could cause disruptions in the financial system generally.

By complying with the provisions of Bulgarian National Bank (BNB) Regulation 8 the Bank holds Capital conservation buffer of common equity Tier I equivalent to 2.5% of the amount of the total risk weighted exposures. With the same Regulation Bulgarian National Bank introduces a requirement for the capital systemic risk buffer. In 2023, the buffer is 3% of risk-weighted exposures. The Bank holds its specific countercyclical capital buffer. The assessment of the buffer depends on the level of the reference indicator that BNB announces quarterly. High levels of credit activity lead to increase of the level of this macroprudential instrument, applicable to credit risk exposures in Bulgaria from 0.5% to 1%, in force since 1 October 2022. The countercyclical capital buffer reached 1.5% effective as of 1 January 2023, and as of 1 October 2023, it was increased to 2%. The countercyclical capital buffer specific for the Bank as of 31 December 2023 is 1.85 %. The capital requirements are also increasing by introducing other systemically important institutions buffer, which BNB has calculated at 1.00% of the total risk exposures of the Bank.

According to a joint decision of the Bulgarian National Bank and Hungarian Central Bank, as a result of a supervisory review and assessment, as of 1 January 2023, the Bank should maintain an additional capital requirement of 1.94%, distributed between Tier I capital 75% and 56.25% of Common Equity Tier I capital. A Pillar II Guidance of 1.75% has also been determined.

8. Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. The use of real market prices and information reduces the necessity for management assessment and assumptions as well as the uncertainty related to the determination of the fair value. The availability of real market prices and information varies depending on the products and markets and changes based on the specific events and the general financial markets environment. For part of the other financial instruments (Level 2) the Bank defines fair value using a measurement method based on net present value (NPV). The calculation of the NPV is based on market yield curves and credit spreads where it is required for the corresponding instrument. The aim of the measurement methods is to define the fair value which reflects the value of the financial instrument as of the reporting date, which would have been defined by direct market players.

The Bank has an established control environment with regard to the fair value measurement. The fair value of the financial instruments is determined independently from the front office by a unit for control of the market risk and the counterparty risk. The specific controls consist of: control of the real price information and performing second measurement using different methods; process of revision and approving of new methods and changes in methods including measurement and back-testing of methods based on real market deals; analysis and research of significant daily dynamics as a result of assessments; revision of significant inside data which is not observed on the market.

The table below analyses financial instruments carried at fair value, by fair value level.

| | Level 1: Quoted market prices in active markets | Level 2: Valuation techniques - observable inputs | Level 3: Valuation techniques - unobservable inputs | Total |
|--|--|--|--|------------------|
| <i>In thousands of BGN</i> | | | | |
| 31-December-2023 | | | | |
| Assets | | | | |
| Trading financial assets | 2 669 | - | - | 2 669 |
| Derivative financial instruments | - | 52 503 | - | 52 503 |
| Investments at fair value through profit or loss | - | 308 | 3 345 | 3 653 |
| Investments at fair value through other comprehensive income | 903 482 | 11 659 | 16 891 | 932 032 |
| Total | 906 151 | 64 470 | 20 236 | 990 857 |
| Liabilities | | | | |
| Derivative financial instruments | - | 64 382 | - | 64 382 |
| Total | - | 64 382 | - | 64 382 |
| 31-December-2022 | | | | |
| Assets | | | | |
| Trading financial assets | 6 652 | - | - | 6 652 |
| Derivative financial instruments | - | 108 819 | - | 108 819 |
| Investments at fair value through profit or loss | - | 311 | 2 597 | 2 908 |
| Investments at fair value through other comprehensive income | 1 172 298 | 9 639 | 13 165 | 1 195 102 |
| Total | 1 178 950 | 118 769 | 15 762 | 1 313 481 |
| Liabilities | | | | |
| Derivative financial instruments | - | 95 927 | - | 95 927 |
| Total | - | 95 927 | - | 95 927 |

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The financial instruments which are not measured at fair value, are analysed in the tables below by their level in the fair value hierarchy.

As of 31 December 2023

| | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying amount |
|---|-----------|------------|------------|------------------|-----------------------|
| <i>In thousands of BGN</i> | | | | | |
| Assets | | | | | |
| Cash and current accounts with the Central Bank and other banks | 705 129 | 5 104 745 | - | 5 809 874 | 5 809 874 |
| Loans and advances to banks | - | 3 030 766 | - | 3 030 766 | 3 030 766 |
| Loans and advances to customers | - | - | 20 040 035 | 20 040 035 | 20 015 182 |
| Investments at amortised cost | 1 995 110 | - | - | 1 995 110 | 2 148 765 |
| Liabilities | | | | | |
| Deposits from banks | - | 66 215 | - | 66 215 | 66 215 |
| Deposits from customers | - | 26 407 138 | - | 26 407 138 | 26 407 135 |
| Loans from banks and financial institutions | - | 1 077 844 | - | 1 077 844 | 1 077 844 |
| Lease liabilities | - | 17 602 | - | 17 602 | 17 602 |
| Subordinated debt | - | 450 090 | - | 450 090 | 450 090 |

As of 31 December 2022

| | Level 1 | Level 2 | Level 3 | Total fair value | Total carrying amount |
|---|-----------|------------|------------|------------------|-----------------------|
| <i>In thousands of BGN</i> | | | | | |
| Assets | | | | | |
| Cash and current accounts with the Central Bank and other banks | 903 843 | 4 885 695 | - | 5 789 538 | 5 789 538 |
| Loans and advances to banks | - | 2 629 263 | - | 2 629 263 | 2 629 263 |
| Loans and advances to customers | - | - | 16 663 204 | 16 663 204 | 16 702 998 |
| Investments at amortised cost | 1 364 258 | - | - | 1 364 258 | 1 611 753 |
| Liabilities | | | | | |
| Deposits from banks | - | 60 186 | - | 60 186 | 60 186 |
| Deposits from customers | - | 23 969 974 | - | 23 969 974 | 23 969 970 |
| Loans from banks and financial institutions | - | 631 806 | - | 631 806 | 631 806 |
| Lease liabilities | - | 21 638 | - | 21 638 | 21 638 |
| Subordinated debt | - | 225 431 | - | 225 431 | 225 431 |

The fair value of cash at banks, loans and advances to banks, and loans and deposits from banks is approximately equal to their carrying value.

The fair value of loans to non-financial institutions and other customers is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, market interest rates and forecast analysis. The fair value of the impaired loans with a collateral backing is based on the valued fair value of the collateral.

To improve the accuracy of the valuation estimate loans are grouped into portfolios with similar characteristics such as product type, borrower type, maturity, currency, collateral type.

The fair value of deposits from customers is estimated using discounted cash flow techniques, applying the rates that are currently offered in the country for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

9. Net interest income

| | 2023 | 2022 |
|--|------------------|-----------------|
| <i>In thousands of BGN</i> | | |
| Interest income | | |
| Loans and advances to banks | 475 190 | 101 054 |
| Loans and advances to customers | 966 983 | 618 007 |
| Investments at fair value through other comprehensive income | 13 356 | 17 775 |
| Investments at amortised cost | 21 640 | 17 604 |
| Deposits from banks (negative interest) | 475 | 1 115 |
| Deposits from customers (negative interest) | - | 1 853 |
| Total | 1 477 644 | 757 408 |
| Interest expense | | |
| Deposits from banks | (14 726) | (4 388) |
| Deposits from customers | (6 797) | (1 431) |
| Loans from banks and financial institutions | (51 419) | (5 954) |
| Lease liabilities | (283) | (151) |
| Subordinated debt | (38 061) | (511) |
| Cash with the Central Bank (negative interest) | (100) | (1 482) |
| Loans and advances to banks (negative interest) | (529) | (4 186) |
| Loans and advances to customers (negative interest) | - | (124) |
| Total | (111 915) | (18 227) |
| Net interest income | 1 365 729 | 739 181 |

10. Net fee and commission income

| | 2023 | 2022 |
|--------------------------------------|------------------------|------------------------|
| <i>In thousands of BGN</i> | | |
| Fee and commission income | | |
| <i>In Bulgarian Leva</i> | | |
| Payment and settlement transactions | 129 097 | 114 588 |
| Credit related deals | 29 540 | 26 323 |
| Deposit related deals | 84 667 | 95 415 |
| Other | 61 297 | 46 584 |
| | <u>304 601</u> | <u>282 910</u> |
| <i>In foreign currencies</i> | | |
| Payment and settlement transactions | 39 024 | 37 775 |
| Credit related deals | 12 281 | 9 759 |
| Deposit related deals | 7 891 | 8 008 |
| Other | 10 376 | 9 737 |
| | <u>69 572</u> | <u>65 279</u> |
| Total | <u>374 173</u> | <u>348 189</u> |
| Fee and commission expense | | |
| In Bulgarian Leva | (41 533) | (36 275) |
| In foreign currencies | (11 092) | (8 485) |
| Total | <u>(52 625)</u> | <u>(44 760)</u> |
| Net fee and commission income | <u>321 548</u> | <u>303 429</u> |

Included in "other" are fees for agency services, short text messages, package services, issuance of guarantees, commercial factoring commissions, etc.

11. Net trading income

| | 2023 | 2022 |
|--|-------------------------|----------------------|
| <i>In thousands of BGN</i> | | |
| Foreign exchange trading | 48 832 | 57 323 |
| Net interest income from securities held for trading | 356 | 375 |
| Securities trading and revaluation | 1 044 | (412) |
| Loss on derivative instruments | (341 294) | (22 374) |
| Total | <u>(291 062)</u> | <u>34 912</u> |

The net loss from derivatives in the table above also includes gains and losses arising from hedging of interest rate risk. The revaluation effect of derivative transactions that hedge repo transactions is reported in net gains/(losses) from foreign exchange in the statement of profit or loss.

Additional information on net fair value hedge gains or losses is presented in the tables below:

| | | 2023 | | | | |
|----------------------------|--|---|---------------------|--|--|----------------------------|
| <i>In thousands of BGN</i> | | Gains/(losses) attributable to the hedged risk | | Hedge ineffectiveness recognised directly in profit or loss | Unrealised gains on foreign currency main spread, recognised in OCI | |
| Hedged Risk | Hedged Items | Hedging Instruments | Hedged Items | Hedging Instruments | | Hedging Instruments |
| Interest Rate Risk | FVOCI Debt instruments | Interest rate swaps | 20 115 | (15 775) | 4 340 | - |
| Currency Risk | Repo receivables denominated in foreign currencies | Currency swaps | 63 577 | (67 516) | (3 939) | 403 |
| | | 2022 | | | | |
| <i>In thousands of BGN</i> | | Gains/(losses) attributable to the hedged risk | | Hedge ineffectiveness recognised directly in profit or loss | Unrealised gains on foreign currency main spread, recognised in OCI | |
| Hedged Risk | Hedged Items | Hedging Instruments | Hedged Items | Hedging Instruments | | Hedging Instruments |
| Interest Rate Risk | FVOCI Debt instruments | Interest rate swaps | 41 904 | (42 293) | (389) | - |
| Currency Risk | Repo receivables denominated in foreign currencies | Currency swaps | (31 448) | 31 999 | 551 | (2 067) |

Additional information about the hedging is provided in Note 22.

12. Net income from other financial instruments at FVTPL

| | 2023 | 2022 |
|----------------------------|-------------|----------------|
| <i>In thousands of BGN</i> | | |
| Debt instruments | - | (413) |
| Equity instruments | 745 | (3 514) |
| Total | 745 | (3 927) |

13. Net gains from realisation of financial assets measured at amortised cost

| | 2023 | 2022 |
|--|---------------|--------------|
| <i>In thousands of BGN</i> | | |
| Collection of previously written-off loans and receivables | 15 681 | 5 435 |
| Sale of financial assets | 6 709 | 4 009 |
| Total | 22 390 | 9 444 |

The income from the sale of financial assets is as a result from sale of a portfolio of non-performing loans.

14. Other operating income, net

| | 2023 | 2022 |
|--|---------------|---------------|
| <i>In thousands of BGN</i> | | |
| Dividends | 36 840 | 79 539 |
| Net gain on disposal of non-financial assets | 3 645 | 4 474 |
| Government grants | 795 | 3 588 |
| Rental fees | 2 739 | 3 220 |
| Hired services | 1 440 | 1 348 |
| Card operators | - | 472 |
| Net gain from government bonds measured at fair value through other comprehensive income | 828 | 434 |
| Other | 4 137 | 2 880 |
| Total | 50 424 | 95 955 |

15. Impairment losses on financial assets, net

| | 2023 | 2022 |
|--|---------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Impairment loss on loans and factoring agreements, net | (14 266) | (80 529) |
| Impairment of past due government bonds | (12 913) | - |
| Impairment gain/ (loss) on securities | 3 112 | (30 021) |
| Impairment gain/ (loss) on loans and receivables from banks, net | 17 783 | (10 463) |
| Impairment gain on POCI | 8 000 | 9 418 |
| Impairment loss on other assets, net | (1 875) | (783) |
| Total | <u>(159)</u> | <u>(112 378)</u> |

16. Impairment gain/ (loss) on non-financial assets, net

| | | 2023 | 2022 |
|--|-------------|-------------------|-----------------------|
| <i>In thousands of BGN</i> | | | |
| | <i>Note</i> | | |
| Impairment loss on tangible assets | | (928) | (1 392) |
| Impairment gain on collaterals acquired | | 1 516 | 4 320 |
| Impairment loss on investments in subsidiaries | 42 | - | (5 975) |
| Total | | <u>588</u> | <u>(3 047)</u> |

The impairment gain/ (loss) on acquired collaterals is reflected in the carrying amount of those assets (Note 31).

17. Personnel expenses

| | 2023 | 2022 |
|-----------------------------------|-----------------------|-----------------------|
| <i>In thousands of BGN</i> | | |
| Wages and salaries | 186 105 | 147 309 |
| Social security contributions | 39 669 | 33 633 |
| Cash-settled share-based payments | 1 092 | 1 167 |
| Other | 183 | 282 |
| Total | <u>227 049</u> | <u>182 391</u> |

The average number of full-time employees is 5 198 for 2023 and 5 193 for 2022.

18. Depreciation and amortisation

| | | 2023 | 2022 |
|-------------------------------|-------------|---------------|---------------|
| <i>In thousands of BGN</i> | <i>Note</i> | | |
| Right-of-use assets | 28 | 7 440 | 7 240 |
| Property, plant and equipment | 29 | 23 659 | 23 818 |
| Intangible assets | 30 | 22 308 | 23 283 |
| Total | | 53 407 | 54 341 |

19. Other expenses

| | | 2023 | 2022 |
|---|--|----------------|----------------|
| <i>In thousands of BGN</i> | | | |
| Hired services | | 119 373 | 101 230 |
| Guarantee Funds contributions and supervisory charges | | 56 140 | 51 239 |
| Materials | | 18 235 | 20 682 |
| Expenses related to short-term leases | | 3 658 | 3 846 |
| Expense relating to leases of low value assets | | 1 872 | 1 906 |
| Other expenses | | 6 252 | 4 496 |
| Total | | 205 530 | 183 399 |

The accrued fees for the services provided by the independent financial auditors of the Bank for 2023 include statutory audit fees to the amount of BGN 1 507 thousand (2022: BGN 1 022 thousand); review of interim financial information to the amount of BGN 267 thousand (2022: BGN 240 thousand), and fees for other non-audit related services to the amount of BGN 35 thousand (2022: BGN 19 thousand).

20. Income tax expense

| | | 2023 | 2022 |
|--|--|------------------|-----------------|
| <i>In thousands of BGN</i> | | | |
| Current tax expense | | (103 715) | (52 134) |
| Deferred tax benefit/ (expense) related to origination and reversal of temporary tax differences | | 793 | (1 661) |
| Total | | (102 922) | (53 795) |
| | | 2023 | 2022 |
| <i>In thousands of BGN</i> | | | |
| Accounting profit | | 1 109 074 | 620 503 |
| Income tax using the statutory corporate tax rate | | (110 907) | (62 050) |
| Allowance for tax paid in foreign tax jurisdictions | | 4 521 | 790 |
| Write-off of deferred tax assets | | - | (85) |
| Prior year tax expense | | - | (31) |
| Tax on permanent tax differences | | 3 464 | 7 581 |
| Income tax expense | | (102 922) | (53 795) |
| Effective tax rate | | 9.28% | 8.67% |

Current taxes are calculated using a tax rate of 10% for 2023 and 2022. The movement of the current tax is as follows:

| | 2023 | 2022 |
|---|--------------|---------------|
| <i>In thousands of BGN</i> | | |
| Current tax asset on 1 January | 11 274 | 9 867 |
| Decrease due to merger and liquidation of subsidiaries | (334) | - |
| Current tax expense | (103 715) | (52 134) |
| Current tax charged to the other comprehensive income | (4 330) | 13 011 |
| Current tax paid | 100 334 | 40 166 |
| Transfer from deferred tax and offset against other taxes | (50) | 364 |
| Current tax asset on 31 December | 3 179 | 11 274 |

In December 2023, a Law for Amendment of the Corporate Income Tax Act was enacted in Bulgaria introducing a minimum global income tax of 15% effectively from 1 January 2024. The Law is in line with Directive 2022/2523 of the EU based on OECD's Pillar Two model rules (see also Note 3.1). The minimum effective taxation shall be applied to multinational groups of entities and large national enterprises whose annual consolidated revenue is in excess of EUR 750 million for at least two of the four fiscal years immediately preceding the current fiscal year. According to the requirements of the Law, the Bank is in the scope of additional domestic taxation, which aims at levying the profits of affected entities with a top-up tax in order to reach an effective tax rate of 15%.

According to the Bank's calculations, if the Pillar Two legislation was effective for the current reporting period, the effective tax rate would rise from 9.28% to approximately 14%.

21. Cash and current accounts with the Central Bank and other commercial banks

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Cash on hand | 705 129 | 903 843 |
| Current accounts with the Central Bank | 4 974 052 | 4 832 951 |
| Current accounts with other banks | 130 897 | 55 014 |
| Less impairment loss allowances | (204) | (2 270) |
| Total | 5 809 874 | 5 789 538 |

Included in cash on hand are cash in transit and cash at ATMs.

The current account with the Central Bank is used for direct participation in the money and securities markets and for settlement purposes as well as for keeping funds for Bank's participation in the Guarantee Mechanism of the System Processing Card-based Payment Transactions. Balances with the Central Bank also cover the minimum required reserves amounting to BGN 2 960 980 thousand and BGN 1 906 544 thousand as of 31 December 2023 and 2022, respectively. Minimum reserves are non-interest bearing and are regulated on a monthly basis. Daily fluctuations are allowed. Shortages or excess reserve funds on monthly basis bear penalty interest. For the period ended 31 December 2022 the reported interest expenses due to excess amount to BGN 1 367 thousand and are included in line "Cash with the Central Bank (negative interest)" of Note 9. In the current year, the Bank does not report interest expenses due to excess reserves.

The accumulated impairment as of 31 December 2023 amounting to BGN 204 thousand includes BGN 16 thousand of impairment of cash held at the Central Bank and BGN 188 thousand of impairment of cash at other banks.

The accumulated impairment as of 31 December 2022 amounting to BGN 2 270 thousand includes BGN 1 978 thousand of impairment of cash held at the Central Bank and BGN 292 thousand of impairment of cash at other banks.

Cash at OTP Group member banks is disclosed in Note 44.

22. Financial assets held for trading and derivative financial instruments

22.1. Financial assets held for trading

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Government securities – Republic of Bulgaria denominated in Bulgarian Leva | 460 | 2 208 |
| Government securities – Republic of Bulgaria denominated in foreign currencies | 2 209 | 2 094 |
| Foreign issuers' debt securities denominated in foreign currencies | - | 2 350 |
| Total | 2 669 | 6 652 |

Government securities issued by the Bulgarian government comprise securities denominated in BGN and EUR. The BGN denominated government securities earn interest as of 31 December 2023 4.00% (2022: between 0.00% and 4.00%) and government securities denominated in EUR earn interest between 2.95% and 5.75% (2022: between 1.875% and 3.125%).

As of 31 December 2022 government securities issued by foreign governments comprise securities denominated in EUR which earn interest between 2.375% and 2.875%.

22.2. Derivative financial instruments

As of 31 December 2023

| | Carrying value | | Notional amount |
|---|----------------|---------------|------------------|
| | Assets | Liabilities | |
| <i>In thousands of BGN</i> | | | |
| Derivatives held for trading | | | |
| Interest rate swaps | 23 581 | 22 696 | 882 132 |
| Foreign exchange contracts | 5 527 | 5 285 | 720 790 |
| Commodity swaps | 5 770 | 5 489 | 538 427 |
| Total | 34 878 | 33 470 | 2 141 349 |
| Derivatives used as fair value hedging instruments | | | |
| Interest rate swaps | 17 625 | - | 414 309 |
| Foreign exchange contracts | - | 30 912 | 959 330 |
| Total | 17 625 | 30 912 | 1 373 639 |
| Total derivative financial instruments | 52 503 | 64 382 | 3 514 988 |

As of 31 December 2022

| | Carrying value | | Notional amount |
|---|----------------|---------------|------------------|
| | Assets | Liabilities | |
| <i>In thousands of BGN</i> | | | |
| Derivatives held for trading | | | |
| Interest rate swaps | 40 957 | 39 207 | 975 555 |
| Foreign exchange contracts | 21 106 | 20 036 | 1 406 784 |
| Commodity swaps | 14 420 | 15 940 | 626 962 |
| Total | 76 483 | 75 183 | 3 009 301 |
| Derivatives used as fair value hedging instruments | | | |
| Interest rate swaps | 32 336 | - | 493 202 |
| Foreign exchange contracts | - | 20 744 | 391 166 |
| Total | 32 336 | 20 744 | 884 368 |
| Total derivative financial instruments | 108 819 | 95 927 | 3 893 669 |

The fair value hedge contracts as of 31 December 2023 and 2022 are two types: 1) interest rate swaps, used to hedge interest rate risk, and 2) foreign exchange swaps used to hedge foreign currency risk. The hedged items are government bonds carried at FVTOCI and repurchase agreements.

The carrying amount as of 31 December 2023 and 2022 is as follows:

| | 31-December-2023 | 31-December-2022 |
|---|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Investments at fair value through other comprehensive income - government debt securities | 408 007 | 479 834 |
| Loans and advances to banks - repurchase agreements | 998 659 | 416 618 |
| Total hedged positions | <u>1 406 666</u> | <u>896 452</u> |

The derivative transactions with related parties are disclosed in Note 44.

| | 2023 | 2022 |
|--|-------------|-------------|
| <i>In thousands of BGN</i> | | |
| (Loss)/ Gain from changes in fair value used for calculating hedge ineffectiveness for the year (Note 11) | (22 880) | 33 774 |
| Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item | (9 907) | (29 619) |

The following table shows the average interest rates and the average FX rate of the Bank's hedging instruments used as of 31 December 2023 and 2022:

| | 31-December-2023 | 31-December-2022 |
|-----------------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Interest rate swaps | | |
| Notional amount | 414 309 | 493 202 |
| Average fixed interest rate | 0.930% | 0.992% |
| Average floating interest rate | 4.571% | 3.180% |
| Foreign exchange contracts | | |
| Notional amount | 959 330 | 391 166 |
| Average exchange rate EUR/HUF | 384 | 411 |
| Average exchange rate USD/HUF | 365 | - |

The Bank assumes that it is not exposed to a significant exchange rate risk in relation to hedged items as well as hedging instruments as there are no open positions as of 31 December 2023 and 2022 due to the deals concluded and strategy applied (approved by OTP Group). The strategy applied covers the possible exchange rate risks arising from the transactions which the Bank enters into. The results from hedging transactions in accordance with IFRS 9 are reported in the Statement of Profit or Loss in lines "Interest income", "Net (loss)/gain from foreign exchange" and "Net trading income".

23. Non-current assets held for sale

Non-current assets available for sale can be analyzed as follows:

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Properties acquired from the liquidation of a subsidiary | 5 031 | - |
| Investments in subsidiaries | 1 325 | 3 500 |
| Total non-current assets held for sale | <u>6 356</u> | <u>3 500</u> |

As at 31 December 2023 the properties acquired from the liquidation of a subsidiary represent land and buildings acquired by the Bank as a result of the liquidation of DSK Tours (Note 43.2). The value of the properties was determined by an assessment by licensed appraisers in the amount of BGN 4,992 thousand. Subsequently, the Bank added to the value additional costs related to the transfer of ownership of these assets in the amount of BGN 39 thousand.

As at 31 December 2023 the Bank has classified its investment in the subsidiary DSK Asset Management AD as a non-current asset held for sale. As disclosed in Note 46, after the end of the reporting period the Bank sold its majority share in this company.

As at 31 December 2022 the Bank has classified its investment in the subsidiary DSK Trans Security EAD amounting to BGN 3 500 thousand as a non-current asset held for sale. During the reporting year the sale is finalized (see also Note 43.2).

24. Loans and advances to banks

Analysis by type

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Deposits with domestic and foreign banks | | |
| In Bulgarian Leva | - | 1 000 |
| In foreign currencies | 1 829 001 | 2 213 492 |
| Encumbered assets (Note 40.2) | 44 168 | 16 666 |
| Loans under repurchase agreements | 1 160 398 | 416 618 |
| Other receivables | - | 14 |
| Less impairment loss allowances | (2 801) | (18 527) |
| Total | <u>3 030 766</u> | <u>2 629 263</u> |

Geographical analysis

| | 31-December-2023 | 31-December-2022 |
|----------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Domestic banks | 5 658 | 9 404 |
| Foreign banks | 3 025 108 | 2 619 859 |
| Total | <u>3 030 766</u> | <u>2 629 263</u> |

The Bank purchases financial instruments under agreements to sell them at future dates (“reverse repurchase agreements”). The instruments are presented as part of loans and advances to banks.

The loans and advances to banks – related parties are disclosed in Note 44.

| 25. Loans and advances to customers | 31-December-2023 | 31-December-2022 |
|---|--------------------------|--------------------------|
| <i>In thousands of BGN</i> | | |
| Individuals | | |
| Consumer loans | 5 375 992 | 4 847 749 |
| Housing and mortgage loans | 6 011 351 | 4 936 753 |
| Companies | | |
| Working capital loans | 2 764 384 | 2 687 585 |
| Investment loans | 6 176 189 | 4 673 989 |
| Advances to clients under local and international factoring | 233 992 | 257 298 |
| State and local government | 106 826 | 32 162 |
| Less impairment loss allowances | <u>(653 552)</u> | <u>(732 538)</u> |
| Total loans and advances to customers | <u>20 015 182</u> | <u>16 702 998</u> |

The movement of the impairment for expected credit loss of loans and advances to customers is provided in Note 6.4.10.2 as a part of the credit risk management disclosure.

The line "State and local government" as at 31 December 2023, includes BGN 45,586 thousand receivables on matured government securities, issued by the Russian Federation. The impairment of receivables is in the amount of BGN 27,351 thousand. The receivables were transferred during the current period from investments at fair value through other comprehensive income (Note 6.4.10.3) and investments at amortized cost (Note 6.4.10.4.).

The interest rates on loans as at 31 December 2023 are in the following range: receivables from individuals from 0.05% to 40.36%; receivables from companies from 0.23% to 16.00%; receivables from the State Budget included in the line "State and Local Government" above from 1.84% to 4.88%.

The interest rates on loans as at 31 December 2022 are in the following range: receivables from individuals from 0.05% to 40.35%; receivables from companies from 0.23% to 22.00%; receivables from the State Budget from 1.00% to 5.378%.

The balances of loans to related parties are disclosed in Note 44.

The bad debts sold to unrelated parties have a gross carrying amount of BGN 19 265 thousand and BGN 10 074 thousand for 2023 and 2022, respectively, and had been fully impaired when written-off.

The loans derecognized on account of accumulated impairment amount to BGN 139 700 thousand and BGN 257 301 thousand for 2023 and 2022, respectively, including BGN 112 034 thousand and BGN 234 879 thousand of loans partially written off.

26. Investments in securities

| | 31-December- 2023 | 31-December- 2022 |
|---|--------------------------------|--------------------------------|
| <i>In thousands of BGN</i> | | |
| <i>Investments in instruments measured at fair value through other comprehensive income</i> | | |
| Equity instruments | 28 578 | 22 832 |
| Government debt securities | 905 693 | 1 178 674 |
| Less impairment loss allowances | <u>(2 239)</u> | <u>(6 404)</u> |
| Total investments in instruments measured at fair value through other comprehensive income | <u>932 032</u> | <u>1 195 102</u> |
| <i>Investments in instruments mandatory measured at fair value through profit or loss</i> | | |
| Equity instruments | 308 | 311 |
| Corporate debt securities | <u>3 345</u> | <u>2 597</u> |
| Total investments in instruments mandatory measured at fair value through profit or loss | <u>3 653</u> | <u>2 908</u> |
| <i>Investments in instruments measured at amortized cost</i> | | |
| Government debt securities | 1 772 372 | 1 641 577 |
| Corporate debt securities | 391 609 | - |
| Less impairment loss allowances | <u>(15 216)</u> | <u>(29 824)</u> |
| Total investments in instruments measured at amortized cost | <u>2 148 765</u> | <u>1 611 753</u> |
| Total | <u><u>3 084 450</u></u> | <u><u>2 809 763</u></u> |

Investments measured at FVTOCI include government bonds issued by central governments denominated in BGN with an applicable interest rate in the range between 0.0% and 4.00% (2022: 0.0% and 4.00%), denominated in EUR with an interest rate ranging between 0.375% and 5.75% (2022: 0.375% and 5.75%) and denominated in USD with an interest rate ranging between 2.125% and 5.375% (2022: 2.00% and 5.85%).

Investments measured at amortised cost include securities issued by central governments denominated in BGN with interest rate ranging between 0.0% and 3.20% (2022: 0.0% and 3.20%); denominated in EUR with interest rate ranging between 0.0% and 5.75% (2022: 0.0% and 5.75%) and denominated in USD with an interest rate ranging between 1.5% and 6.00% (2022: 1.5% and 6.00%).

Corporate securities measured at amortized cost, issued by related parties, are disclosed in Note 44.

As of 31 December 2023 and 2022, the securities pledged as collateral and blocked in favour of the Ministry of Finance on deposits from the State Budget include instruments measured at amortised cost, which are disclosed in Note 40.2.

The equity investments represent shares in domestic and foreign companies and financial institutions.

27. Goodwill

The goodwill reported in the separate statement of financial position as at 31 December 2023 and 31 December 2022 to the amount of BGN 77 372 thousand has arisen in 2020 upon the merger of Expressbank. The goodwill was originally determined on the acquisition of Expressbank by DSK Bank Group, which took place on 15 January 2019, and entirely allocated to the acquired bank as a cash-generating unit in the consolidated financial statements of DSK Bank for 2019. On merger of Expressbank AD into DSK Bank, the acquisition method as per IFRS 3 *Business Combinations* was applied, whereby the goodwill was recognized in the separate financial statements of the Bank. The combined bank after the merger is regarded as the new cash generating unit, to which the goodwill is allocated.

As of 31 December 2023 the Bank performed a test for impairment of goodwill allocated to the combined bank using a model whose key inputs are the cash flows of the combined bank for a three-year period. Based on the actual financial performance for the 11 months to November 2023 and the financial preliminary estimations for December 2023, the Bank prepared a medium-term cash flow forecasts for the period 2024-2026. In preparing the calculations, the Bank considered the actual worldwide economic situation, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing, which result from these, and the expected changes of the mentioned factors.

The calculations were performed under two methods, which have produced similar results, namely the free cash flow (FCF) method and the economic value-added (EVA) method.

Present value calculation with the FCF method

The FCF method calculates the value of a company by discounting their expected cash flows, which are determined by the Bank on the basis of expected profits after tax. The method employs assumptions, such as discount rate, risk premium, long-term growth. For calculating the discount factor, the Bank has used the risk-free rates of ten-year local government bonds. The risk premium is the one specific for Bulgaria, as published on damodaran.com. The growth rate used for calculation of the terminal value reflects the long-term economic expectations for Bulgaria. The company value is then calculated as the sum of the discounted cash flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

The EVA method estimates the value of a company from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. The Bank creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector, which means that the company’s profitability exceeds the expected yield. The value of the Bank was then calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the long-term growth rate are the same that are used in the FCF method.

A summary of key assumptions used in the model, is presented below:

| | 2024 | 2025 | 2026 |
|---------------|-------------|-------------|-------------|
| Discount rate | 4.80% | 4.80% | 4.80% |
| Risk premium | 6.00% | 6.00% | 6.00% |

Calculation of residual value:

| | |
|-------------------------|-------|
| Long-term discount rate | 4.80% |
| Long-term risk premium | 6.00% |
| Long-term growth rate | 3.00% |

The Bank performed a sensitivity analysis of the results of the test if the discount rate and the long-term growth rate changed from -0.2%/+0.2% to -0.5%/+0.5%. The calculations are not highly sensitive to changes within these ranges.

The calculated recoverable amount under both methods exceeds the carrying amount of net assets of DSK Bank, being the cash-generating unit for the purposes of the test, by approximately 30%. Therefore, management has concluded that goodwill is not impaired as of 31 December 2023.

28. Right-of-use assets

Movement of right-of-use assets during the year 2023

| | Land, buildings and equipment | Vehicles | Total |
|--|--|-----------------|---------------|
| <i>In thousands of BGN</i> | | | |
| Cost | | | |
| Balance as of 31 December 2022 | 35 881 | 4 793 | 40 674 |
| Additions due to new contracts | 1 315 | 566 | 1 881 |
| Derecognition due to expired contracts | (2 167) | (35) | (2 202) |
| Changes from reassessment and modification | (90) | (343) | (433) |
| Balance as of 31 December 2023 | 34 939 | 4 981 | 39 920 |
| Depreciation | | | |
| Balance as of 31 December 2022 | 18 584 | 578 | 19 162 |
| Depreciation for the period | 6 432 | 1 008 | 7 440 |
| Derecognition due to expired contracts | (2 167) | (35) | (2 202) |
| Changes from reassessment and modification | (1 640) | (251) | (1 891) |
| Balance as of 31 December 2023 | 21 209 | 1 300 | 22 509 |
| Net book value 31 December 2023 | 13 730 | 3 681 | 17 411 |
| Net book value 31 December 2022 | 17 297 | 4 215 | 21 512 |

Movement of right-of-use assets during the year 2022

| | Land, buildings and equipment | Vehicles | Total |
|--|--|-----------------|---------------|
| <i>In thousands of BGN</i> | | | |
| Cost | | | |
| Balance as of 31 December 2021 | 35 532 | 2 325 | 37 857 |
| Additions due to new contracts | 1 756 | 3 765 | 5 521 |
| Derecognition due to expired contracts | (1 659) | (1 215) | (2 874) |
| Changes from reassessment and modification | 252 | (82) | 170 |
| Balance as of 31 December 2022 | 35 881 | 4 793 | 40 674 |
| Depreciation | | | |
| Balance as of 31 December 2021 | 15 303 | 1 273 | 16 576 |
| Depreciation for the period | 6 716 | 524 | 7 240 |
| Derecognition due to expired contracts | (1 658) | (1 118) | (2 776) |
| Changes from reassessment and modification | (1 777) | (101) | (1 878) |
| Balance as of 31 December 2022 | 18 584 | 578 | 19 162 |
| Net book value 31 December 2022 | 17 297 | 4 215 | 21 512 |
| Net book value 31 December 2021 | 20 229 | 1 052 | 21 281 |

29. **Property, plant and equipment**

Movement of property, plant and equipment during the year 2023

| | Land and buildings | IT equipment | Office equipment | Other assets | Total |
|--|-----------------------|-----------------|---------------------|-----------------|----------------|
| <i>In thousands of BGN</i> | | | | | |
| Cost or revalued amount | | | | | |
| Balance as of 31 December 2022 | 566 871 | 106 566 | 95 865 | 5 291 | 774 593 |
| Additions | 3 | 9 | 56 | 28 999 | 29 067 |
| Increase from merger of a subsidiary | - | 1 | 2 | - | 3 |
| Disposals | (8 976) | (7 784) | (3 752) | (1 540) | (22 052) |
| Transfers | 1 859 | 12 201 | 3 185 | (17 323) | (78) |
| Impairment charge | (93) | - | - | - | (93) |
| Balance as of 31 December 2023 | 559 664 | 110 993 | 95 356 | 15 427 | 781 440 |
| Depreciation | | | | | |
| Balance as of 31 December 2022 | 190 540 | 83 146 | 85 324 | 451 | 359 461 |
| Charge for the period | 10 124 | 9 475 | 4 039 | 21 | 23 659 |
| Increase from merger of a subsidiary | - | 1 | 1 | - | 2 |
| Disposals | (3 274) | (7 763) | (3 633) | (182) | (14 852) |
| On transfers | - | (39) | - | - | (39) |
| Impairment charge | 2 112 | - | - | - | 2 112 |
| Balance as of 31 December 2023 | 199 502 | 84 820 | 85 731 | 290 | 370 343 |
| Net book value 31 December 2023 | 360 162 | 26 173 | 9 625 | 15 137 | 411 097 |
| Net book value 31 December 2022 | 376 331 | 23 420 | 10 541 | 4 840 | 415 132 |

Movement of property, plant and equipment during the year 2022

| | Land and buildings | IT equipment | Office equipment | Other assets | Total |
|--|-----------------------|-----------------|---------------------|-----------------|----------------|
| <i>In thousands of BGN</i> | | | | | |
| Cost or revalued amount | | | | | |
| Balance as of 31 December 2021 | 579 547 | 106 658 | 97 500 | 4 947 | 788 652 |
| Additions | 236 | 443 | 5 | 12 168 | 12 852 |
| Disposals | (12 841) | (6 993) | (4 065) | (834) | (24 733) |
| Transfers | 2 107 | 6 458 | 2 425 | (10 990) | - |
| Revaluation increase | (1 313) | - | - | - | (1 313) |
| Impairment charge | (865) | - | - | - | (865) |
| Balance as of 31 December 2022 | 566 871 | 106 566 | 95 865 | 5 291 | 774 593 |
| Depreciation | | | | | |
| Balance as of 31 December 2021 | 185 502 | 81 764 | 84 246 | 867 | 352 379 |
| Charge for the period | 10 579 | 8 355 | 4 869 | 15 | 23 818 |
| Disposals | (7 355) | (6 973) | (3 791) | (134) | (18 253) |
| Revaluation increase | 990 | - | - | - | 990 |
| Impairment charge | 824 | - | - | (297) | 527 |
| Balance as of 31 December 2022 | 190 540 | 83 146 | 85 324 | 451 | 359 461 |
| Net book value 31 December 2022 | 376 331 | 23 420 | 10 541 | 4 840 | 415 132 |
| Net book value 31 December 2021 | 394 045 | 24 894 | 13 254 | 4 080 | 436 273 |

“Land and buildings” include leasehold improvements to the amount of BGN 1 133 thousand and BGN 1 712 thousand as of 31 December 2023 and 2022, respectively.

In “Other equipment” are included property, plant and equipment under construction and in the process of acquisition, to the amount of BGN 15 143 thousand and BGN 4 826 thousand as of 31 December 2023 and 2022, respectively.

As of 31 December 2023, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Bank’s activities is as follows: buildings: to the amount of BGN 261 thousand, leasehold improvements: to the amount of BGN 9 336 thousand, IT equipment: to the amount of BGN 48 335 thousand, office equipment: to the amount of BGN 65 285 thousand, other equipment: to the amount of BGN 3 500 thousand.

As of 31 December 2022, the gross carrying amount of fully depreciated property, plant and equipment that are still in use in the course of the Bank’s activities is as follows: buildings: to the amount of BGN 364 thousand, leasehold improvements: to the amount of BGN 8 638 thousand, IT equipment: to the amount of BGN 46 778 thousand, office equipment: to the amount of BGN 62 395 thousand, other equipment: to the amount of BGN 4 713 thousand.

A market analysis of the fair values of land and buildings was performed by licensed appraisers as at 31 December 2023 based on data provided by the Bank and other public information sources. For the purposes of the analysis, research of the real estate market has been performed and offers and actual market transactions concluded for the respective districts of the location of the assets have been reviewed. As a result of the market analysis, properties with a carrying amount significantly differing from the market prices have not been identified.

The last fair value of all assets from land and buildings was determined by licensed appraisers as of 31 December 2021. The valuation was performed using the comparative value method (market analogy method). Under this method, the value of a property is determined by direct comparison to the market price of other comparable properties. The appraisers have used data from actual market transactions concluded during the 6-month period prior to the valuation date. The market price of the analogous property is adjusted by an expert coefficient for market adaptation (ECMA), which is usually in the range from -25% to +25% and reflects the availability of sufficient market information for analogous items. The ECMA can exceed this range in exceptional circumstances and by decision of the appraiser only for unique properties with characteristics similar to the appraised ones, for which no sufficient market analogues are available. Additionally, the price is adjusted by coefficients reflecting the area, location, size and structure of the property, as well as a weight factor reflecting the weight of the selected market analogs in the determined fair value.

The main coefficients applied in the properties’ revaluation are in the following range:

| Coefficient | Range | |
|--------------------------------|-------|------|
| Valuation of buildings: | from | to |
| Location | 0.80 | 1.30 |
| Physical condition | 0.80 | 1.30 |
| Area | 0.75 | 1.20 |
| Different statute | 0.60 | 1.00 |
| Valuation of land: | | |
| Location, size, structure | 0.80 | 1.25 |
| Area | 0.75 | 1.25 |
| Business purpose | 0.70 | 1.00 |

The coefficient for actual market deals used for land valuation is 0.90.

Based on the inputs in the valuation model used, the fair value of land and buildings is categorized as Level 3 in the fair value hierarchy. The fair value is sensitive to changes in the rate of return and the adjusting coefficients used, and may vary, in case these parameters increase or decrease.

30. Intangible assets

Movement of intangible assets during 2023

| | Software and licenses | Customer base recognized in a business combination | Assets in the process of acquisition | Total |
|--|--------------------------|---|--|----------------|
| <i>In thousands of BGN</i> | | | | |
| Cost | | | | |
| Balance as of 31 December 2022 | 172 866 | 69 836 | 19 058 | 261 760 |
| Additions | 32 | - | 36 926 | 36 958 |
| Increase from merger of a subsidiary | 182 | - | - | 182 |
| Disposals | (43 704) | - | (3 227) | (46 931) |
| Transfers | 19 264 | - | (19 186) | 78 |
| Balance as of 31 December 2023 | 148 640 | 69 836 | 33 571 | 252 047 |
| Amortization | | | | |
| Balance as of 31 December 2022 | 138 286 | 57 370 | - | 195 656 |
| Charge for the period | 17 945 | 4 363 | - | 22 308 |
| Increase from merger of a subsidiary | 145 | - | - | 145 |
| Disposals | (42 996) | - | - | (42 996) |
| On transfers | 39 | - | - | 39 |
| Balance as of 31 December 2023 | 113 419 | 61 733 | - | 175 152 |
| Net book value 31 December 2023 | 35 221 | 8 103 | 33 571 | 76 895 |
| Net book value 31 December 2022 | 34 580 | 12 466 | 19 058 | 66 104 |

Movement of intangible assets during 2022

| | Software and licenses | Customer base recognized in a business combination | Assets in the process of acquisition | Total |
|--|--------------------------|---|--|----------------|
| <i>In thousands of BGN</i> | | | | |
| Cost | | | | |
| Balance as of 31 December 2021 | 189 188 | 69 836 | 6 940 | 265 964 |
| Additions | 78 | - | 23 268 | 23 346 |
| Disposals | (27 452) | - | (98) | (27 550) |
| Transfers | 11 052 | - | (11 052) | - |
| Balance as of 31 December 2022 | 172 866 | 69 836 | 19 058 | 261 760 |
| Amortization | | | | |
| Balance as of 31 December 2021 | 149 168 | 50 657 | - | 199 825 |
| Charge for the period | 16 570 | 6 713 | - | 23 283 |
| Disposals | (27 452) | - | - | (27 452) |
| Balance as of 31 December 2022 | 138 286 | 57 370 | - | 195 656 |
| Net book value 31 December 2022 | 34 580 | 12 466 | 19 058 | 66 104 |
| Net book value 31 December 2021 | 40 020 | 19 179 | 6 940 | 66 139 |

As of 31 December 2023 and 2022, the gross carrying amount of fully amortized intangible assets (licenses and software) that are still in use in the course of the Bank's activities is to the amount of BGN 71 993 thousand and BGN 95 251 thousand, respectively.

| | | |
|-------------------------------------|------------------------------|------------------------------|
| 31. Other assets | 31-December- 2023 | 31-December- 2022 |
| <i>In thousands of BGN</i> | | |
| Temporary accounts with clients | 50 992 | 128 955 |
| Clearing and bank settlement assets | 25 658 | 37 288 |
| Deferred expenses | 17 279 | 14 779 |
| Receivables for fees | 9 567 | 8 182 |
| Materials, spare parts | 5 660 | 4 178 |
| Advances to suppliers | 3 635 | 6 085 |
| Shortages of assets | 3 110 | 2 990 |
| Receivables from litigation | 2 367 | 2 325 |
| Acquired collaterals | 1 605 | 6 386 |
| Other assets | 4 281 | 5 376 |
| Impairment | (15 727) | (14 041) |
| Total | <u>108 427</u> | <u>202 503</u> |

The accumulated impairment of other assets is mostly attributable to receivables for fees, receivables from litigation and writs, as well as shortages of assets. The movement of impairment for 2023 and 2022 is the following:

| | | |
|------------------------------|----------------------|----------------------|
| | 2023 | 2022 |
| <i>In thousands of BGN</i> | | |
| Opening balance | 14 041 | 13 395 |
| Charge for the year | 2 762 | 2 489 |
| Release for the year | (887) | (1 706) |
| Write-off | (231) | (177) |
| Foreign exchange differences | 42 | 40 |
| Closing balance | <u>15 727</u> | <u>14 041</u> |

| | | |
|--|------------------------------|------------------------------|
| 32. Deposits from banks and loans from banks and financial institutions | 31-December- 2023 | 31-December- 2022 |
| <i>In thousands of BGN</i> | | |
| Current accounts | 53 516 | 40 554 |
| Deposits | 12 699 | 19 632 |
| Total deposits from banks | <u>66 215</u> | <u>60 186</u> |
| Loans from banks | 1 076 756 | 626 637 |
| Loans from financial institutions | 1 088 | 5 169 |
| Total loans from banks and financial institutions | <u>1 077 844</u> | <u>631 806</u> |

As of 31 December 2023 and 2022 the loans from banks to the amount of BGN 1 076 756 thousand and BGN 626 637 thousand, respectively represent funds received from the parent company to meet the minimum requirements for equity and eligible liabilities (see Note 44).

The Bank has received a long-term loan from the European Investment Fund under the “JEREMIE” program for the purpose of granting preferential interest loans to SMEs. As of 31 December 2023 and 2022 the BGN equivalent of the outstanding balance of the loan is BGN 1 088 thousand and BGN 5 169 thousand, respectively.

As of 31 December 2023 the interest rate on BGN 571 thousand of the balance is 1.91% and the interest rate on the remaining amount of BGN 517 thousand is 1.71%.

As of 31 December 2022 the interest rate on BGN 1 592 thousand of the balance is 1.91% and the interest rate on the remaining amount of BGN 3 577 thousand is 1.71%.

The deposits and loans received from related parties are disclosed in Note 44.

The Bank has not had any defaults of principal or interest or other breaches with respect to its liabilities during the years 2023 and 2022.

| | | |
|------------------------------------|------------------------------|------------------------------|
| 33. Deposits from customers | 31-December- 2023 | 31-December- 2022 |
| <i>In thousands of BGN</i> | | |
| Individuals | | |
| Term deposits | 3 085 576 | 3 290 400 |
| Demand deposits | 17 222 320 | 14 696 304 |
| Companies | | |
| Term deposits | 370 293 | 198 264 |
| Demand deposits | 4 852 088 | 4 575 015 |
| State Budget | | |
| Term deposits | 56 565 | 50 370 |
| Demand deposits | 307 553 | 268 030 |
| Financial institutions | | |
| Term deposits | 7 604 | 1 936 |
| Demand deposits | 505 136 | 889 651 |
| Total | 26 407 135 | 23 969 970 |

The interest rates on deposits as at 31 December 2023 are ranged as follows: deposits from individuals from 0% to 8.50%; deposits from companies from 0% to 3.20%; deposits from State Budget from 0% to 3.80%; deposits from financial institutions from 0.00% to 3.80%.

The interest rates on deposits as at 31 December 2022 are ranged as follows: deposits from individuals from 0% to 8.50%; deposits from companies from 0% to 2.00%; deposits from State Budget from 0% to 2.00%; deposits from financial institutions from 0% to 2.00%.

The deposits received from related parties are disclosed in Note 44.

34. Lease liabilities

31-December-2023

31-December-2022

In thousands of BGN

| | | |
|---------------------------------|---------------|---------------|
| With maturity of up to 1 year | 6 471 | 6 626 |
| With maturity from 1 to 5 years | 10 962 | 14 665 |
| With maturity over 5 years | 169 | 347 |
| Total lease liabilities | 17 602 | 21 638 |

The changes in lease liabilities for the years ending 31 December 2023 and 2022 are presented in Note 41.

35. Provisions

Movement in provisions during 2023

| | Pension employment defined benefit obligations | Provisions for litigation and others | Provisions for guarantees, letters of credit, loan commitments and factoring | Total |
|---|---|---|---|------------------|
| <i>In thousands of BGN</i> | | | | |
| Opening balance as of 31 December 2022 | 11 223 | 17 108 | 48 358 | 76 689 |
| Additions during the year | 1 683 | 365 | 92 416 | 94 464 |
| Increase from merger of a subsidiary | 40 | 522 | - | 562 |
| Reversal during the year | - | (1 924) | (102 674) | (104 598) |
| Amounts paid | (841) | (147) | - | (988) |
| Other movements | 1 739 | (122) | (6) | 1 611 |
| Closing balance as of 31 December 2023 | 13 844 | 15 802 | 38 094 | 67 740 |

Movement in provisions during 2022

| | Pension employment defined benefit obligations | Provisions for litigation and others | Provisions for guarantees, letters of credit, loan commitments and factoring | Provisions for restructuring | Total |
|---|---|---|---|---|------------------|
| <i>In thousands of BGN</i> | | | | | |
| Opening balance as of 31 December 2021 | 13 446 | 37 229 | 32 317 | 107 | 83 099 |
| Additions during the year | 1 352 | 1 486 | 98 340 | - | 101 178 |
| Reversal during the year | - | (21 355) | (82 330) | (107) | (103 792) |
| Amounts paid | (1 023) | (456) | - | - | (1 479) |
| Other movements | (2 552) | 204 | 31 | - | (2 317) |
| Closing balance as of 31 December 2022 | 11 223 | 17 108 | 48 358 | - | 76 689 |

Pension obligations for the payment of defined benefits and long-term benefits to employed persons

The estimated amount of the defined benefit obligation as at each reporting date and the expenses for retirement compensations recognised are based on an actuarial report (see below information on actuarial assumptions).

| | 2023 | 2022 |
|--|----------------|----------------|
| <i>In thousands of BGN</i> | | |
| Liability recognized in the balance sheet as of January 1 | 11 223 | 13 446 |
| Increase from merger of a subsidiary | 40 | - |
| Cost recognized in the statement of profit or loss | 1 683 | 1 352 |
| Payments made during the period | (841) | (1 023) |
| Actuarial (profit)/losses recognized in the statement of other comprehensive income, including: | 1 739 | (2 552) |
| <i>Actuarial (gains)/ losses from changes in financial assumptions</i> | <i>2 900</i> | <i>(4 137)</i> |
| <i>Actuarial gains from changes in demographic assumptions</i> | <i>(2 481)</i> | <i>(121)</i> |
| <i>Actuarial losses from experience adjustments</i> | <i>1 320</i> | <i>1 706</i> |
| Defined benefit obligations at 31 December | 13 844 | 11 223 |

Expense recognized in statement of profit or loss

| | 2023 | 2022 |
|--------------------------------|--------------|--------------|
| <i>In thousands of BGN</i> | | |
| Current and past service costs | 979 | 1 550 |
| Interest on obligation | 664 | 87 |
| Actuarial loss/(gain) | 40 | (285) |
| Total | 1 683 | 1 352 |

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | 2023 | 2022 |
|------------------------------|-------------|-------------|
| Discount rate at 31 December | 4.50% | 6.00% |
| Future salary increases | 10.30% | 4.00% |

36. Deferred tax liabilities

Deferred income taxes for 2023 and 2022 are calculated on all temporary differences under the balance sheet liability method using a tax rate of 10%.

Deferred income tax balances are attributable to the following items

| | Assets | | Liabilities | | Net | |
|--|----------------|----------------|--------------------|---------------|---------------|---------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| <i>In thousands of BGN</i> | | | | | | |
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (4 301) | (3 320) | - | - | (4 301) | (3 320) |
| Business reorganisation | - | - | 443 | 443 | 443 | 443 |
| Fixed assets | - | - | 23 319 | 23 849 | 23 319 | 23 849 |
| Provisions for litigation and others | (1 375) | (1 505) | - | - | (1 375) | (1 505) |
| Unused annual leave and other | (475) | (636) | - | - | (475) | (636) |
| Net deferred tax (assets)/liabilities | (6 151) | (5 461) | 23 762 | 24 292 | 17 611 | 18 831 |

Movement in deferred taxes during 2023

| | Balance as of 31 December 2022 | Recognised in the statement of profit or loss 2023 | Merger of a subsidiary 2023 | Charged directly to equity 2023 | Balance as of 31 December 2023 |
|--|--------------------------------------|--|--------------------------------------|--|--------------------------------------|
| <i>In thousands of BGN</i> | | | | | |
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (3 320) | (682) | (61) | (238) | (4 301) |
| Business reorganisation | 443 | - | - | - | 443 |
| Fixed assets | 23 849 | (402) | - | (128) | 23 319 |
| Provisions for litigation and other liabilities | (1 505) | 130 | - | - | (1 375) |
| Unused annual leave and other | (636) | 161 | - | - | (475) |
| Total | 18 831 | (793) | (61) | (366) | 17 611 |

Movement in deferred taxes during 2022

| | Balance as of 31 December 2021 | Recognised in the statement of profit or loss 2022 | Transferred to current tax assets 2022 | Charged directly to equity 2021 | Balance as of 31 December 2022 |
|--|--------------------------------------|--|---|--|--------------------------------------|
| <i>In thousands of BGN</i> | | | | | |
| Retirement benefit obligations under the Labour Code and other personnel liabilities | (3 465) | (231) | 376 | - | (3 320) |
| Business reorganisation | 443 | - | - | - | 443 |
| Fixed assets | 24 682 | (603) | - | (230) | 23 849 |
| Provisions for litigation and other liabilities | (3 535) | 1 982 | 48 | - | (1 505) |
| Unused annual leave and other | (1 149) | 513 | - | - | (636) |
| Total | 16 976 | 1 661 | 424 | (230) | 18 831 |

37. Other liabilities

31-December-2023

31-December-2022

In thousands of BGN

| | | |
|--|----------------|----------------|
| Money transfers for execution | 58 940 | 81 476 |
| Liabilities to personnel and management | 33 693 | 27 294 |
| Obligations under unilaterally terminated contracts | 25 674 | 25 898 |
| Liabilities to suppliers | 12 123 | 11 503 |
| Liabilities under condition for financial asset refunding | 2 204 | 40 |
| Liabilities to customers related to purchase and repurchase of investments in mutual funds | 337 | 53 |
| Liabilities for dividends and shares | 328 | 3 747 |
| Liabilities to insurers | 137 | 1 490 |
| Liabilities for centralisation of State Budget with BNB | - | 4 538 |
| Other | 11 798 | 7 438 |
| Total | 145 234 | 163 477 |

38. Subordinated debt

As of 31 December 2023 and 2022 the Bank received long-term loans from OTP Bank in the amount of EUR 230 000 thousand and EUR 115 000 thousand, respectively. The main purpose of the loans is to strengthen the Bank's resources in order to improve capital adequacy. For this reason, the loans are agreed under the conditions that meet the requirements for their recognition as Pillar 2 instruments and are presented as subordinated term debt. The interest rate is three-month EURIBOR plus a premium, and amounts to 9.955% and 9.081% as at 31 December 2023 and 2022, respectively. As at 31 December 2023 the principal amount includes EUR 115 000 thousand due on 29 March 2033 and EUR 115 000 thousand due on 21 December 2032. Interest is paid quarterly. As at 31 December 2023 the balance includes principal and interest in the amount of BGN 449 841 thousand and BGN 249 thousand, respectively (2022: BGN 224 920 thousand and BGN 511 thousand, respectively).

39. Share capital and reserves

39.1. Face value of registered shares

As of 31 December 2023 and 2022 the share capital consists of 132 865 992 ordinary dematerialized registered voting shares with par value of BGN 10 each.

OTP Bank, incorporated in Hungary, is the owner of 99.92% of the share capital of DSK Bank as of 31 December 2023 and 2022.

The ultimate shareholders with over 5% stake of OTP Bank as of the date of these financial statements are as follows:

| Name | Number of shares | Ownership | Voting rights |
|-------------------------------------|------------------|-----------|---------------|
| Hungarian Oil and Gas Company (MOL) | 24 000 000 | 8.57% | 8.58% |
| Groupama Group | 14 256 813 | 5.09% | 5.10% |

39.2. Statutory and other reserve

Statutory and other reserves include statutory reserve according to local regulations and profits transferred to reserves according to decisions of the General Meeting of Shareholders.

39.3. Revaluation reserves

39.3.1. Revaluation reserve – land and buildings

The properties revaluation reserve arises on the revaluation of land and buildings according to the revaluation model as per IAS 16. Such reserve is reported in the Statement of changes in equity net of deferred tax. Items of other comprehensive income included in the property's revaluation reserve will not be reclassified subsequently to profit or loss.

As at 31 December 2023 and 2022 a decrease amounting to BGN 1 277 thousand and BGN 2 303 thousand, respectively are accounted for, gross of tax, as a result of a impairment of land and buildings on the account of the revaluation reserves. The deferred tax effects on the reserve recognized directly in equity amount to BGN 128 thousand and BGN 230 thousand, respectively (Note 36).

For the years ending 31 December 2023 and 2022, revaluation reserve of land or buildings sold to the amount of BGN 1 622 thousand and BGN 3 388 thousand, respectively, has been transferred directly to retained earnings.

39.3.2. Revaluation reserve – financial assets

The revaluation reserve of financial assets is comprised of the following:

- (a) Gains and losses from changes in the fair value of debt- and equity instruments measured at fair value through other comprehensive income;
- (b) Current tax arisen from the reported gains and losses from changes in the fair value of debt and equity instruments measured at fair value through other comprehensive income;
- (c) Accumulated gains and losses recycled to profit or loss on changes in the fair value attributable to the hedged risk, or on disposal of debt instruments measured at FVTOCI, which have been designated as hedged items;
- (d) Expected credit losses on debt instruments measured at FVTOCI;
- (e) Foreign exchange gains and losses on equity instruments measured at FVTOCI;
- (f) Profit or loss on revaluation of hedging instruments.

No tax arising from the changes attributable to the hedged risk, expected credit losses or foreign exchange gains or losses on equity instruments, has been reported directly in equity.

39.4. Defined benefit pension reserve

The defined benefit pension reserve is comprised of actuarial gains and losses arisen on actuarial valuation of the retirement benefits performed by a licensed actuary as at the end of each reporting period (Note 35).

39.5. Share-based payment reserve

The share-based payment reserve is related to performance-based remunerations accrued by the Bank in previous periods, which are to be settled by equity instruments of the parent company.

According to the Remuneration Policy, certain members of the identified management personnel are entitled to a performance-based bonus. The scope of persons eligible for such a bonus is defined based on the significance of the position both at OTP Group level and local level, and the risk profile of the functions performed.

Performance is measured against goals and criteria defined in separate agreements with the respective persons.

The variable remuneration is settled through cash and equity instruments at a ratio of 50:50. A part of the remuneration can be deferred for a maximum period of 5 years.

The number of shares to be granted to each eligible person is determined as the ratio of the amount of share-based payment and the price of OTP Bank shares. The share price is determined by the Supervisory Board of OTP Bank within 10 days before settlement of the performance-based remuneration, based on the average of the daily prices of the ordinary shares issued by OTP Bank quoted at the Budapest Stock Exchange on the three trading days preceding the day of the decision.

Since 1 January 2021, the shares granted to this group of managers are not real, but "virtual", which in practice means that the remuneration continues to be tied to the share price of OTP Bank but is paid in cash.

40. Contingent assets and liabilities

40.1. Off balance sheet liabilities

| | 31-December-2023 | 31-December-2022 |
|--|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Litigation against the Bank and other contingent liabilities | 21 741 | 21 534 |
| Bank guarantees and letters of credit | 631 009 | 535 132 |
| Factoring agreement commitments | 43 971 | 26 554 |
| Commitments for undrawn credit facilities | 3 221 792 | 3 015 564 |
| Commitments under term deals | 3 523 544 | 3 781 761 |
| Other | 1 912 | 6 045 |
| Total | 7 443 969 | 7 386 590 |

The commitments under term deals represent commitments under interest rate, foreign currency and commodity derivative contracts. The contingent receivables related to those derivative contracts amount to BGN 3 481 141 thousand and BGN 3 849 480 thousand as of 31 December 2023 and 2022, respectively.

The off-balance sheet receivables from, and liabilities to, related parties are disclosed in Note 44.

Legal claims and other contingent liabilities connected with claims against the Bank

The legal claims against DSK Bank and other contingent liabilities connected with legal proceedings amount to BGN 21 741 and BGN 21 534 thousand (principal and accrued interest) as of December 31, 2023 and 2022, respectively. For part of these legal claims the Bank's management believes that there is a probability of unfavourable outcome. The Bank considers the probability of future cash outflows on other contingent liabilities as well as the probability for increase of customers' claims against the Bank connected with payments on contracts for products and services provided by the Bank. Based on these assessments provisions at the total amount of BGN 15 802 thousand and BGN 17 108 thousand (Note 35) are allocated as at the end of 2023 and 2022, respectively.

Contingent liabilities on guarantees and letters of credit

The Bank provides financial guarantees and letters of credit to guarantee the performance of commitments of its customers to third parties. These agreements have fixed limits and fixed terms of validity.

These commitments and contingent liabilities carry an off-balance sheet credit risk, with a provision for the proportion of the uncommitted commitment that is likely to be funded based on a credit conversion factor (Note 35).

40.2. Assets pledged as collateral

As of 31 December 2023 and 2022 DSK Bank has pledged assets as collateral as follows:

| | 31-December-2023 | 31-December-2022 |
|---------------------------------------|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| Securities measured at amortised cost | 413 360 | 409 766 |
| Financial assets at amortised cost | 44 886 | 17 268 |
| Total | 458 246 | 427 034 |

As of 31 December 2023 and 2022 the securities are pledged at the Bulgarian National Bank in favour of the Ministry of Finance as collateral for funds due to the State Budget under the Public Finance Act (Note 26).

As of 31 December 2023 DSK Bank has pledged deposits collateralising derivative deals with OTP Bank amounting to BGN 718 thousand (2022: BGN 602 thousand) and with other foreign banks amounting to BGN 6 147 thousand (2022: BGN 16 666 thousand). In addition, as of 31 December 2023, the Bank has pledged cash in the amount of BGN 38 021 thousand as an adjustment of collateral received for repo transactions (Note 44).

40.3. Operating leases – the Bank as a lessor

The Bank has entered into operating lease agreements as a lessor, and recognised income from rentals under those agreements to the amount of BGN 2 739 thousand and BGN 3 220 thousand for 2023 and 2022, respectively (Note 14).

The table below provides a maturity breakdown of the undiscounted cash flow payments, which are to be received in the future by the Bank in its capacity as a lessor:

| | 31-December-2023 | 31-December-2022 |
|---|-------------------------|-------------------------|
| <i>In thousands of BGN</i> | | |
| In less than 1 year | 607 | 802 |
| Between 1 and 2 years | 386 | 571 |
| Between 2 and 3 years | 235 | 266 |
| Between 3 and 4 years | 130 | 175 |
| Between 4 and 5 years | 57 | 64 |
| More than 5 years | 73 | 72 |
| Total undiscounted future lease payments | 1 488 | 1 950 |

41. Additional information for the statement of cash flows

Cash and cash equivalents can be analysed as follows:

| <i>In thousands of BGN</i> | <i>Note</i> | 31-December- 2023 | 31-December- 2022 |
|--|-------------|------------------------------|------------------------------|
| Cash on hand | 21 | 705 129 | 903 843 |
| Balances with the Central Bank | 21 | 4 974 052 | 4 832 951 |
| Receivables from banks with original maturity up to 3 months | | <u>130 897</u> | <u>56 014</u> |
| Total | | <u>5 810 078</u> | <u>5 792 808</u> |

The following table summarises the changes in the liabilities from financing activity, including cash flows-related changes and non-cash changes, and contains a reconciliation of opening and closing balances of the liabilities originating from financing activity in the statement of financial position.

For the year ending 31 December 2023:

| <i>In thousands of BGN</i> | Loans from banks and subordinated debt (Notes 32 and 38) | Lease liabilities (Note 34) | Total liabilities from financing activity |
|--|---|--|--|
| As of 1 January | 852 068 | 21 638 | 873 706 |
| <i>Non-cash changes:</i> | | | - |
| Increase due to new contracts | 674 761 | 1 881 | 676 642 |
| Interest accrued | 87 164 | 283 | 87 447 |
| Changes from reassessment and modification | - | 1 445 | 1 445 |
| Total non-cash changes | <u>761 925</u> | <u>3 609</u> | <u>765 534</u> |
| <i>Cash flows:</i> | | | |
| Interest paid | (87 147) | - | (87 147) |
| Payment of lease liabilities | - | (7 645) | (7 645) |
| Total cash flows | <u>(87 147)</u> | <u>(7 645)</u> | <u>(94 792)</u> |
| As of 31 December | <u>1 526 846</u> | <u>17 602</u> | <u>1 544 448</u> |

For the year ending 31 December 2022:

| | Loans from banks and subordinated debt (Notes 32 and 38) | Lease liabilities (Note 34) | Total liabilities from financing activity |
|---|---|--|--|
| <i>In thousands of BGN</i> | | | |
| As of 1 January | - | 21 293 | 21 293 |
| <i>Non-cash changes:</i> | | | |
| Increase due to new contracts | 948 578 | 5 521 | 954 099 |
| Interest accrued | 6 462 | 151 | 6 613 |
| Changes from reassessment and modification | - | 2 065 | 2 065 |
| Total non-cash changes | <u>955 040</u> | <u>7 737</u> | <u>962 777</u> |
| <i>Cash flows:</i> | | | |
| Repayment of loans | (97 792) | - | (97 792) |
| Interest paid | (5 180) | - | (5 180) |
| Payment of lease liabilities | - | (7 392) | (7 392) |
| Total cash flows | <u>(102 972)</u> | <u>(7 392)</u> | <u>(110 364)</u> |
| As of 31 December | <u>852 068</u> | <u>21 638</u> | <u>873 706</u> |

42. Subsidiaries and associated companies

The investments in subsidiaries and associated companies are presented below:

| | 31-December-2023 | | 31-December-2022 | |
|---|-------------------------|----------------------------|-------------------------|----------------------------|
| | % ownership | Carrying amount | % ownership | Carrying amount |
| <i>In thousands of BGN</i> | | | | |
| DSK Tours EOOD - in liquidation | - | - | 100.00% | 6 931 |
| DSK Rodina Pension Company AD | 99.85% | 14 973 | 99.85% | 14 973 |
| DSK Assets Management AD | 66.00% | - | 66.00% | 1 325 |
| DSK Leasing AD | 60.02% | 1 961 | 60.02% | 1 961 |
| dsk Ventures EAD | 100.00% | 7 200 | 100.00% | 7 200 |
| DSK Dom EAD | 100.00% | 500 | 100.00% | 500 |
| OTP Factoring Bulgaria EAD | - | - | 100.00% | 37 620 |
| OTP Leasing EOOD | 100.00% | 49 725 | 100.00% | 49 725 |
| Regional Urban Development Fund AD | 52.00% | 208 | 52.00% | 208 |
| Total investments in subsidiaries | | <u>74 567</u> | | <u>120 443</u> |
| Cash Services Company AD | 25.00% | 2 965 | 25.00% | 2 965 |
| Total investments in associates | | <u>2 965</u> | | <u>2 965</u> |
| Total investments in subsidiaries and associates | | <u>77 532</u> | | <u>123 408</u> |

Through DSK Leasing AD, the Bank indirectly owns 60.02% of the share capital of OTP Insurance Broker EOOD as of 31 December 2023 and 31 December 2022.

As of 31 December 2023 the Bank continues to own a 66% share in the capital of DSK Asset Management AD, but the investment in this company in the amount of BGN 1,325 thousand is classified as held for sale (Note 23). After the end of the reporting period, the Bank sold 41% of its shares in DSK Asset Management AD (Note 46).

As of 31 December 2022, DSK Bank is also the sole owner of DSK Trans Security EAD, which is classified as a non-current asset held for sale as of that date (Note 23). On 1 February 2023, the Bank sold its shares in DSK Trans Securities EAD to the associated Company for Cash Services AD. The sold company was subsequently renamed DKU Inkaso AD and as of 31 December 2023 it was merged into Company for Cash Services AD.

On 05 September 2022 the decision of the Bank as a sole owner of DSK Tours EOOD to terminate the entity and to start a liquidation procedure was filed in the Trade register of Republic of Bulgaria (Note 43.2).

On 13 September 2022 the Bank announced its plan for transformation of its subsidiary OTP Factoring Bulgaria EAD through merging in DSK Bank. The purpose of the merger is to form an integrated process of collection of all bad debts in the Bank's portfolio; to simplify the structure facilitating this process; to optimize administrative and operating costs. The merger was completed in the current year (Note 43.1).

As of 31 December 2023 and 2022 the cost of the investment of DSK Bank AD in Company for Cash Services AD, an associate of the Bank, is BGN 2 965 thousand, which represents 25% of the share capital of this entity. The net assets of Company for Cash Services AD as of 31 December 2023 amount to BGN 17 496 thousand (2022: 15 954 thousand).

As of 31 December 2023 and 2022 the Bank performed a review for indications of impairment of its investments in subsidiaries. As a result, for 2023 there is no impairment, and for 2022, an impairment of the Bank's investment in DSK Assets Management AD has been charged to the amount of BGN 5 975 thousand (Note 16).

43. Merger, sale and liquidation of subsidiaries

43.1. Merger of OTP Factoring EAD

On 25 May 2023 the merger of OTP Factoring EAD into DSK Bank was entered in the Commercial Register. OTP Factoring EAD is terminated without liquidation, and its rights and obligations pass to DSK Bank as its legal successor.

The balance sheet values of the assets and liabilities of OTP Factoring at the date of the merger are as follows:

| <i>In thousands of BGN</i> | 25-May-2023 |
|--|----------------------|
| Assets | |
| Cash and cash equivalents | 26 839 |
| Property, plant and equipment | 1 |
| Intangible assets | 37 |
| Deferred tax assets | 61 |
| Other assets | 17 |
| Total assets | <u>26 955</u> |
| Liabilities | |
| Current tax liabilities | 69 |
| Provisions | 562 |
| Other liabilities | 454 |
| Total liabilities | <u>1 085</u> |
| Net assets as at the merge date | <u>25 870</u> |
| Investment as at the merge date (Note 42) | (37 620) |
| Effect of merge accounted for in equity (retained earnings) | (11 750) |

43.2. Disposal of subsidiaries by sale and liquidation

For the year ending on 31 December 2023, the Bank reports gain on disposal of subsidiaries as follows:

| <i>In thousands of BGN</i> | 2023 |
|---------------------------------|---------------------|
| DSK Trans Security AD | 365 |
| DSK Tours EOOD - in liquidation | 3 482 |
| Total | <u>3 847</u> |

Sale of DSK Trans Security AD

On 1 February 2023 the Bank sold its shares in DSK Trans Security AD, representing 100% of the registered capital of the company. The profit from the sale is formed as follows:

| <i>In thousands of BGN</i> | <i>Note</i> | 1-February-2023 |
|----------------------------------|-------------|------------------------|
| Income received | | 3 865 |
| <i>less:</i> | | |
| Net book value of the investment | 23 | (3 500) |
| | | <u>365</u> |

Liquidation of DSK Tours - in liquidation EOOD

On 4 August 2023 the subsidiary DSK Tours - in liquidation EOOD was deleted from the Commercial Register. The Bank as the sole owner acquired the property that remained after satisfying the creditors, as follows:

| <i>In thousands of BGN</i> | <i>Note</i> | 04-August-2023 |
|---|-------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | | 5 644 |
| Land and buildings | 23 | 1 871 |
| Other assets | | 43 |
| Total assets | | <u>7 558</u> |
| Liabilities | | |
| Current tax assets | | <u>265</u> |
| Total liabilities | | <u>265</u> |
| Net assets acquired from liquidation | | <u>7 293</u> |
| <i>add:</i> | | |
| Valuation of land and buildings acquired up to market value | 23 | 3 122 |
| <i>less:</i> | | |
| Net book value of the investment in the liquidated entity | 42 | (6 931) |
| Effects of intragroup adjustments | | <u>(2)</u> |
| Profit from liquidation | | <u>3 482</u> |

44. Related party transactions

DSK Bank has a related party relationship with directors, executive officers, as well as with its subsidiaries and associates, the owner OTP Bank and the other companies within OTP Group.

The directors and executive officers are represented by the members of the Management Board and the Supervisory Board.

The related party transactions are based on contractual terms and conditions.

The related party transactions and balances as of, and for the years ended 31 December 2023 and 2022 are as follows:

DSK Bank AD
Separate Financial Statements
for 2023

As of, and for the year ending 31 December 2023:

In thousands of BGN

| | OTP Bank | Subsidiaries | Other OTP Group members | Associates | Directors and executive officers | Total |
|---|-----------|--------------|-------------------------|------------|----------------------------------|-----------|
| Income/ (Expenses) | | | | | | |
| Interest income | 429 460 | 45 632 | 17 318 | - | - | 492 410 |
| Interest expense | (87 175) | (95) | (2) | - | - | (87 272) |
| Fees and commissions income | 193 | 1 011 | 33 | - | 6 | 1 243 |
| Fees and commissions expenses | (805) | (34) | (22) | - | - | (861) |
| Losses on trading activities | (448 678) | - | - | - | - | (448 678) |
| Dividend income | - | 36 275 | - | - | - | 36 275 |
| Income from rentals | - | 380 | - | 152 | - | 532 |
| Other operating income | 1 360 | 53 | 25 | 3 | - | 1 441 |
| Hired services | - | (17) | - | (11 942) | - | (11 959) |
| Assets | | | | | | |
| Current accounts - gross carrying amount | 86 777 | - | 2 017 | - | - | 88 794 |
| Derivative financial instruments | 46 395 | - | - | - | - | 46 395 |
| Loans granted to customers, receivables banks - gross carrying amount | 3 027 420 | 1 593 676 | - | - | 308 | 4 621 404 |
| Corporate debt securities - gross carrying amount | - | - | 391 609 | - | - | 391 609 |
| Right of use assets - gross carrying amount | - | 4 981 | - | - | - | 4 981 |
| Other receivables | 783 | 897 | 27 | 218 | - | 1 925 |
| Liabilities | | | | | | |
| Current and deposit accounts with DSK Bank | 2 084 | 25 932 | 5 136 | 1 298 | 7 921 | 42 371 |
| Derivative financial instruments | 34 782 | - | - | - | - | 34 782 |
| Other liabilities | 2 589 | - | - | 774 | - | 3 363 |
| Loans received | 1 076 756 | - | - | - | - | 1 076 756 |
| Subordinated debt | 450 090 | - | - | - | - | 450 090 |
| Conditional liabilities | | | | | | |
| Undrawn lines of credit and commercial factoring | 1 600 | 208 891 | - | - | 297 | 210 788 |
| Conditional liabilities on derivative financial instruments | 2 258 386 | - | - | - | - | 2 258 386 |
| Guarantees and letters of credit granted | 100 | 2 311 | - | - | - | 2 411 |
| Conditional receivables | | | | | | |
| Conditional receivables on derivative financial instruments | 2 242 520 | - | - | - | - | 2 242 520 |

As of, and for the year ending 31 December 2022:

In thousands of BGN

| | OTP Bank | Subsidiaries | Other OTP Group members | Associates | Directors and executive officers | Total |
|---|-----------|--------------|-------------------------|------------|----------------------------------|-----------|
| Income/ (Expenses) | | | | | | |
| Interest income | 89 124 | 6 471 | 7 485 | - | - | 103 080 |
| Interest expense | (7 219) | (16) | (240) | - | - | (7 475) |
| Fees and commissions income | 5 | 757 | 31 | - | - | 793 |
| Fees and commissions expenses | (304) | (22) | (11) | - | - | (337) |
| Gains on trading activities | 13 512 | - | - | - | - | 13 512 |
| Dividend income | - | 75 560 | - | - | - | 75 560 |
| Income from rentals | - | 861 | - | - | - | 861 |
| Other operating income | 1 250 | 58 | 42 | - | - | 1 350 |
| Hired services | - | 242 | - | - | - | 242 |
| Assets | | | | | | |
| Current accounts - gross carrying amount | 3 106 | - | 5 840 | - | - | 8 946 |
| Derivative financial instruments | 75 303 | - | - | - | - | 75 303 |
| Loans granted to customers, receivables banks - gross carrying amount | 1 938 961 | 1 389 296 | 692 149 | - | 175 | 4 020 581 |
| Right of use assets - gross carrying amount | - | 4 679 | - | - | - | 4 679 |
| Other receivables | 649 | 567 | - | - | - | 1 216 |
| Liabilities | | | | | | |
| Current and deposit accounts with DSK Bank | 1 655 | 67 176 | 4 | 4 565 | 12 554 | 85 954 |
| Derivative financial instruments | 42 919 | - | 1 181 | - | - | 44 100 |
| Other liabilities | 2 571 | 4 869 | - | - | - | 7 440 |
| Loans received | 626 637 | - | - | - | - | 626 637 |
| Subordinated debt | 225 431 | - | - | - | - | 225 431 |
| Conditional liabilities | | | | | | |
| Undrawn lines of credit and commercial factoring | 1 600 | 169 630 | - | - | 353 | 171 583 |
| Conditional liabilities on derivative financial instruments | 1 980 894 | - | 21 275 | - | - | 2 002 169 |
| Guarantees and letters of credit granted | - | 2 643 | 16 | - | - | 2 659 |
| Conditional receivables | | | | | | |
| Conditional receivables on derivative financial instruments | 2 080 134 | - | 19 558 | - | - | 2 099 692 |
| Conditional receivables for financial guarantees | - | - | 16 | - | - | 16 |

DSK Bank has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance as of 31 December 2023 to the amount of BGN 86 777 thousand and impairment thereon amounting to BGN 133 thousand. The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB and RSD with total balance as of 31 December 2023 to the amount of BGN 2 017 thousand and impairment thereon amounting to BGN 13 thousand.

DSK Bank has nostro accounts with OTP Bank denominated in EUR, USD, GBP, CHF and HUF with total balance as of 31 December 2022 to the amount of BGN 3 106 thousand and impairment thereon amounting to BGN 27 thousand. The Bank has nostro accounts with other OTP Bank Group members denominated in RON, RUB, HRK and RSD with total balance as of 31 December 2022 to the amount of BGN 5 840 thousand and impairment thereon amounting to BGN 46 thousand..

As of 31 December 2023 DSK Bank has the following intragroup derivative deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 40 548 thousand, liabilities BGN 210 thousand, notional amount BGN 820 346 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 2 580 thousand, liabilities BGN 31 720 thousand, notional amount BGN 1 145 244 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 3 267 thousand, liabilities BGN 2 852 thousand, notional amount BGN 276 930 thousand.

As of 31 December 2022 DSK Bank has the following intragroup derivative deals:

- Interest rate swaps with OTP Bank Group members – assets BGN 71 405 thousand, liabilities BGN 0 thousand, notional amount BGN 931 770 thousand;
- Derivative deals for foreign exchange with OTP Bank Group members - assets BGN 121 thousand, liabilities BGN 32 324 thousand, notional amount BGN 848 644 thousand;
- Commodity swap deals with OTP Bank Group members - assets BGN 3 777 thousand, liabilities BGN 11 776 thousand, notional amount BGN 350 001 thousand.

The derivatives used for fair value hedge as of 31 December 2023 and 2022 are concluded with OTP Bank (Note 22.2).

As of 31 December 2023 DSK Bank has the following intragroup loans and advances to banks:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 718 thousand (Note 40.2);
- Deposits at OTP Bank denominated in EUR, USD and GBP to the total amount of BGN 1 828 283 thousand with original maturity up to two years and maturity date between 30 December 2024 and 15 October 2025. The interest rates vary between 4.08% and 7.18%;
- A receivables under repo deals with OTP Bank denominated in EUR and HUF to the amount of BGN 1 160 398 thousand with original maturity of over 1 year and maturity date between 12 March 2025 and 22 August 2028. The interest rates vary between 3.97% and 10.63%;
- Blocked funds as an adjustment of the value of collateral received under repo deals with OTP Bank in EUR amounting to BGN 38 021 thousand with original maturity over a year and maturity date 3 January 2025.

As of 31 December 2022 DSK Bank has the following intragroup loans and advances to banks:

- Deposits blocked in connection with derivative deals with OTP Bank denominated in EUR and USD amounting to BGN 602 thousand (Note 40.2);
- Deposits at OTP Bank denominated in BGN, EUR, USD, GBP at total amount of BGN 1 521 741 thousand with original maturity of up to 2 years and maturity dates between 30 January 2023 and 24 June 2024. The interest rates vary between 2.29% and 14.07%;
- Deposit accounts with OTP BANKA SRBIJA A.D.NOVI SAD denominated in EUR amounting to BGN 692 149 thousand with maturity of up to 1 year and maturity dates between 08 February 2023 and 31 July 2023. The interest rates vary between 0.71% and 9.18%;
- A receivable under repo deal with OTP Bank denominated in HUF to the amount of BGN 416 618 thousand with original maturity of over 1 year, repayment date 22 April 2026 and interest rate of 15.03%.

As of 31 December 2023 and 2022 loans granted to related parties comprise of loans denominated in BGN and EUR, granted to the subsidiary OTP Leasing EOOD. The gross amount of the loans as at 31 December 2023 and 2022 is BGN 1 593 676 thousand and BGN 1 389 296 thousand, respectively. As at the end of the current year the short-term part of the loans amounts to BGN 226 150 thousand and the remainder is due between 2025 and 2028. The interest rates vary between 0.23% and 4.525%.

Corporate debt securities are mortgage bonds issued in December 2023 by OTP JELZALOGBANK RESVENY, a credit institution, with a nominal value of EUR 200 000 thousand and a fixed interest rate of 3.603%. The maturity date is 7 March 2029.

The Bank has received deposits from OTP Bank Group member banks denominated in BGN and EUR with total balance as of 31 December 2023 and 2022 to the amount of BGN 7 220 thousand and BGN 1 659 thousand, respectively.

As of 31 December 2023 subsidiaries and associated companies have open current accounts at DSK Bank in BGN and EUR with a total amount of BGN 27 230 thousand.

As of 31 December 2022 DSK Bank has the following intragroup balances of deposits received from subsidiaries and associates:

- Current accounts of group members denominated in BGN and EUR amounting to BGN 69 526 thousand;
- Term deposits of group members denominated in BGN amounting to BGN 2 215 thousand.

As of 31 December 2023 and 2022 the Bank received loans from OTP Bank at the amount of EUR 550 000 thousand and EUR 320 000 thousand, respectively. The interest rate on the loans is three-month EURIBOR plus a surcharge. As of 31 December 2023, the weighted average interest rate on loans is 7.18% (2022: 5.36%). The maturity date for EUR 240 000 thousand of the received loans is in 2027, and the balance of EUR 310 000 thousand is due in 2028-2029. The final balance also includes accrued interest in the amount of BGN 1 049 thousand (2022: BGN 772 thousand).

As of 31 December 2023 and 2022 the Bank has received loans from OTP Bank amounting to EUR 230 000 and EUR 115 000 thousand, respectively (BGN 449 841 thousand and BGN 224 920 thousand) classified as subordinated debt (see Note 38).

As of 31 December 2023 DSK Bank has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to group members amounting to BGN 2 411 thousand.
- The commitment of the Bank on unutilized credit lines extended to group members amounts to BGN 208 891 thousand.
- The commitment of the Bank on derivative deals with group members amounts to BGN 2 258 386 thousand.

As of 31 December 2022 DSK Bank has the following intragroup off-balance sheet liabilities and commitments:

- DSK Bank has issued guarantees to group members amounting to BGN 2 659 thousand.
- The commitment of the Bank on unutilised credit lines extended to group members amounts to BGN 171 230 thousand.
- The commitment of the Bank on derivative deals with group members amounts to BGN 2 002 169 thousand.

The remuneration of the key management personnel for 2023 includes short-term and long-term benefits amounting to BGN 6 346 thousand (2022: BGN 6 784 thousand), including share-based payments to the amount of BGN 1 009 thousand (2022: BGN 953 thousand) (Note 17).

45. Disclosures required by the Law on Credit Institutions

Pursuant to Art. 70, paragraph 6 of the Law on Credit Institutions, The Bank should disclose certain qualitative and quantitative indices.

The Bank has a full license for commercial banking, offering bank products and services.

The Bank operates in the Republic of Bulgaria and does not have registered subsidiaries and branches outside the country.

Below is quantitative data for the Bank's operations:

| <i>In thousands of BGN</i> | 2023 | 2022 |
|---|-------------|-------------|
| Operating income | 1 580 650 | 1 153 445 |
| Pre-tax profit | 1 109 074 | 620 503 |
| Income tax expense | (102 922) | (53 795) |
| Equivalent number of full-time employees, average | 5 198 | 5 193 |
| Return on assets (net profit to total assets) | 3.22% | 2.13% |
| Government grants received | 795 | 3 588 |

The quantitative data above is calculated on the basis of the separate financial statements.

The total assets used to determine the return on assets is the average of assets for four quarters.

DSK Bank carries out services in its capacity of an investment intermediary pursuant to the provisions of the Law on Public Offering of Securities (LPOS). As an investment intermediary, the Bank has to follow certain requirements for the protection of its clients' interests pursuant to the Markets in Financial Instruments Act (FIMA), Ordinance 38 and Ordinance 58, issued by the Financial Supervision Commission. The Bank has created and has been applying organisation related to signing and execution of contracts with clients, requiring information from clients, keeping record and storing clients' assets pursuant to the provision, and more specifically, to the requirements of Ordinance 38, Art. 28-31 and Ordinance 58, Art. 3-10. The Bank has developed internal control rules and procedures, in order to ensure compliance with the legislative framework described above.

46. Events after the end of the reporting period

On 19 January 2024 the Bank sold 41% of the share capital of its subsidiary DSK Asset Management AD at the price close to the balance sheet value. As a result, the effective share of the Bank in the capital of the company is 25%.

No other significant events after the end of the reporting period have been identified.